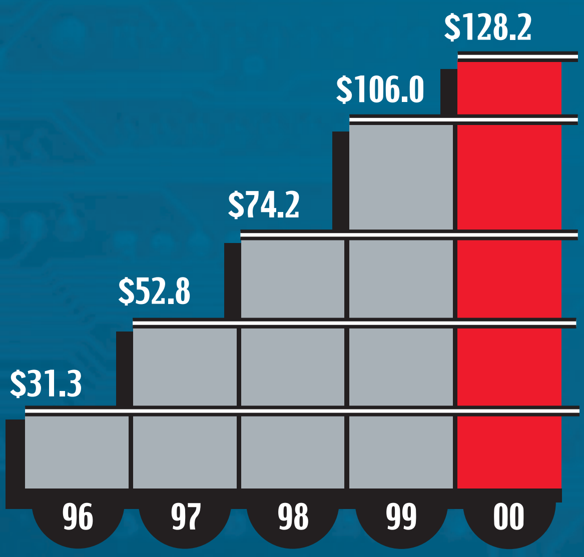
# 2000 Annual Report

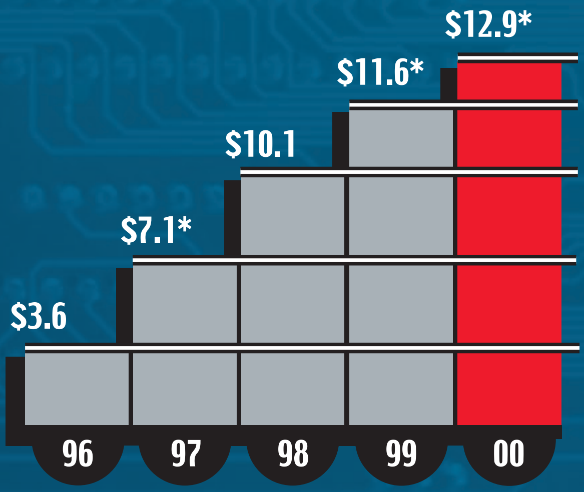
SBS™ Technologies, Inc.

SBS Technologies, Inc. Financial Performance
FY ended June 30 *excludes non-recurring items

## Continuous sales growth
(in millions)

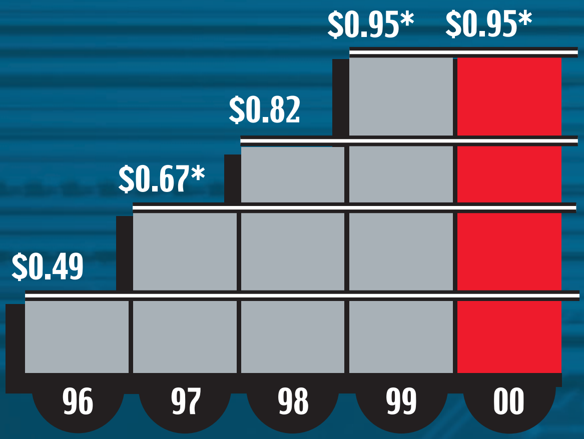



## Net income
(in millions)




On August 18, 2000, SBS Technologies, Inc. ("SBS") declared a two-for-one stock split for stockholders of record on September 5, 2000, payable on September 20, 2000. All references in this annual report to net income per common share, net income per common share – assuming dilution, common stock and stockholders' equity have been restated as if the stock split occurred as of the earliest period presented.

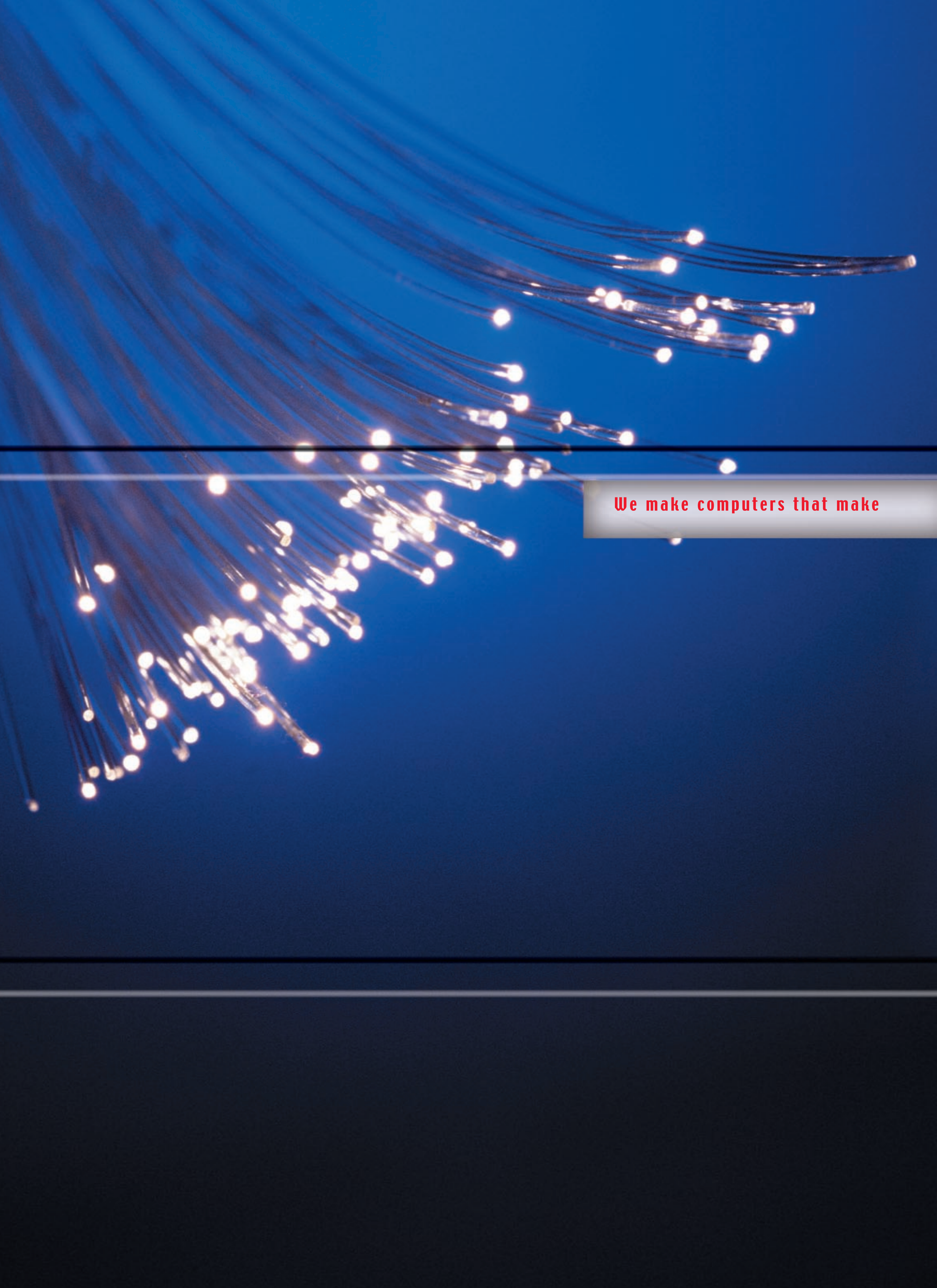
## Net income per common share – assuming dilution
(in dollars)



Thank you

3M Company
Applied Biosystems
Applied Materials
Avici Systems
BAE Systems Aerospace
Boeing
Ciena
DaimlerChrysler
Electro Scientific Industries
Ericsson
FlightSafety International
GE
General Dynamics
GN Nettest
Honeywell
Lam Research
Litton
Lockheed Martin
Lucent Technologies
Motorola
Netrix
Netscout Systems
Network Associates
Nokia
Nortel Networks
Northrop Grumman
Orbital Sciences
Raytheon
Tollbridge
Unaxis
And to each of our many other valued customers.

SBS Technologies, Inc.



We make computers that make

airplanes

base stations

blood analyzers

ct scanners

flight simulators

luggage scanners

mail sorters

missile systems

mri machines

optical switches **work.**

pbx systems

power plants

radar systems

robots

rocket launchers

satellites

semiconductor fabrication

sound systems

submarines

telephones

terabit routers

test equipment

theme parks

wireless internet

Christopher J. Amenson, Chairman & Chief Executive Officer

## To my fellow shareholders:

In the past year SBS has provided the embedded computers used to decode the human genome, field the first optical switches, control the International Space Station, road test new automobiles, screen for early stage lung cancer, train airline pilots and provide high-speed wireless Internet connection. Our technology has become part of the fabric of everyday life. The customer set we served at the end of this past fiscal year was substantially larger and offers greater opportunity than ever before. Therein lies the confidence and optimism we feel as a company. In fact, it is my belief that SBS has just entered the most exciting stage of development in its history.

We completed fiscal 2000 a substantially different and stronger company than when the year began, and because of the changes we made during fiscal 2000, we have a significantly better growth outlook. Highlights include completing two critical business acquisitions, effectively entering the telecommunications market, and building a strong backlog of new OEM production business. When we began the year, our sales to telecommunications customers were a small percentage of the company's total. We ended the year with telecommunications comprising about 40% of fourth quarter sales revenue, and continuing to grow very rapidly. When we began the year, our sales to OEM production customers were a minor portion of our revenue. Today it is the fastest growing element of our sales as we obtained over 50 design wins wherein OEM customers have elected to include SBS computers within their product offerings. We began the year with approximately $15 million in order backlog—we ended the year with approximately $58 million in order backlog, built by an accelerating pace of new orders.

# aLETTER

## To our Shareholders

SBS' success depends upon having the right products available when our customers need them, as well as our speed and ability to customize our core products for perfect fit in higher volume applications. Through our investments in research and development and a series of complementary business acquisitions, SBS has developed a broad range of widely applicable products which appeal to customers in many industries. Our goal is to make their jobs easier.

From a financial performance perspective, we enjoyed a good year, with total revenue reaching $128 million and earnings per share of $0.95, which reflects a two-for-one stock split declared August 18, 2000 and excludes an acquired in-process research and development charge we took associated with the SDL Communications, Inc. acquisition. Excellent revenue growth in our Communications Group (+127%) and limited growth in our Computer Group (+6%) was offset by an 18% decline in our Aerospace Group. The reduction in Aerospace Group revenue, our highest gross margin business, significantly reduced total company earnings, and was caused by a decline in the development of new military aircraft and spacecraft. Our Aerospace Group business now depends upon a flow of aircraft upgrades.

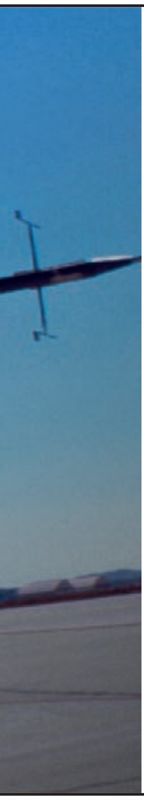
The future growth of this company will be generated largely by SBS obtaining higher volume OEM contracts in the telecommunications, commercial and military systems markets. Today SBS is an OEM provider to companies such as Ericsson, Lucent, Nokia, Nortel, Motorola, GE, Applied Biosystems, Applied Materials and Raytheon. It is this business, reflected in the significant growth in our bookings and order backlog, which provides the basis of our optimism for accelerated growth.

We believe we have positioned SBS for an excellent future in the coming years by solidifying the technology and personnel foundation of our company. During this past year we have advanced our evolution by entering more rapidly growing markets, and we remain motivated by the contributions we make to our customers' success and pride in a job well done. I thank our customers, employees and vendors for all that you do for our company.

Christopher J. Amenson
Chairman of the Board
Chief Executive Officer

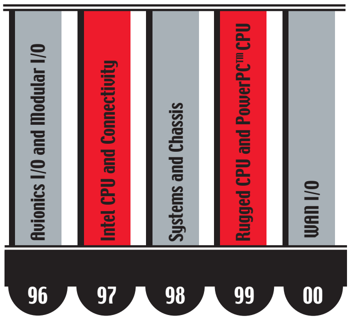
SBS continuously introduces technologies which provide easy-to-use solutions to our customers, solving many of their critical computing needs. These expanded capabilities have opened a broad range of end-markets for SBS to serve, while steadily increasing the opportunity for growth in profitability.

## Who is SBS Technologies?

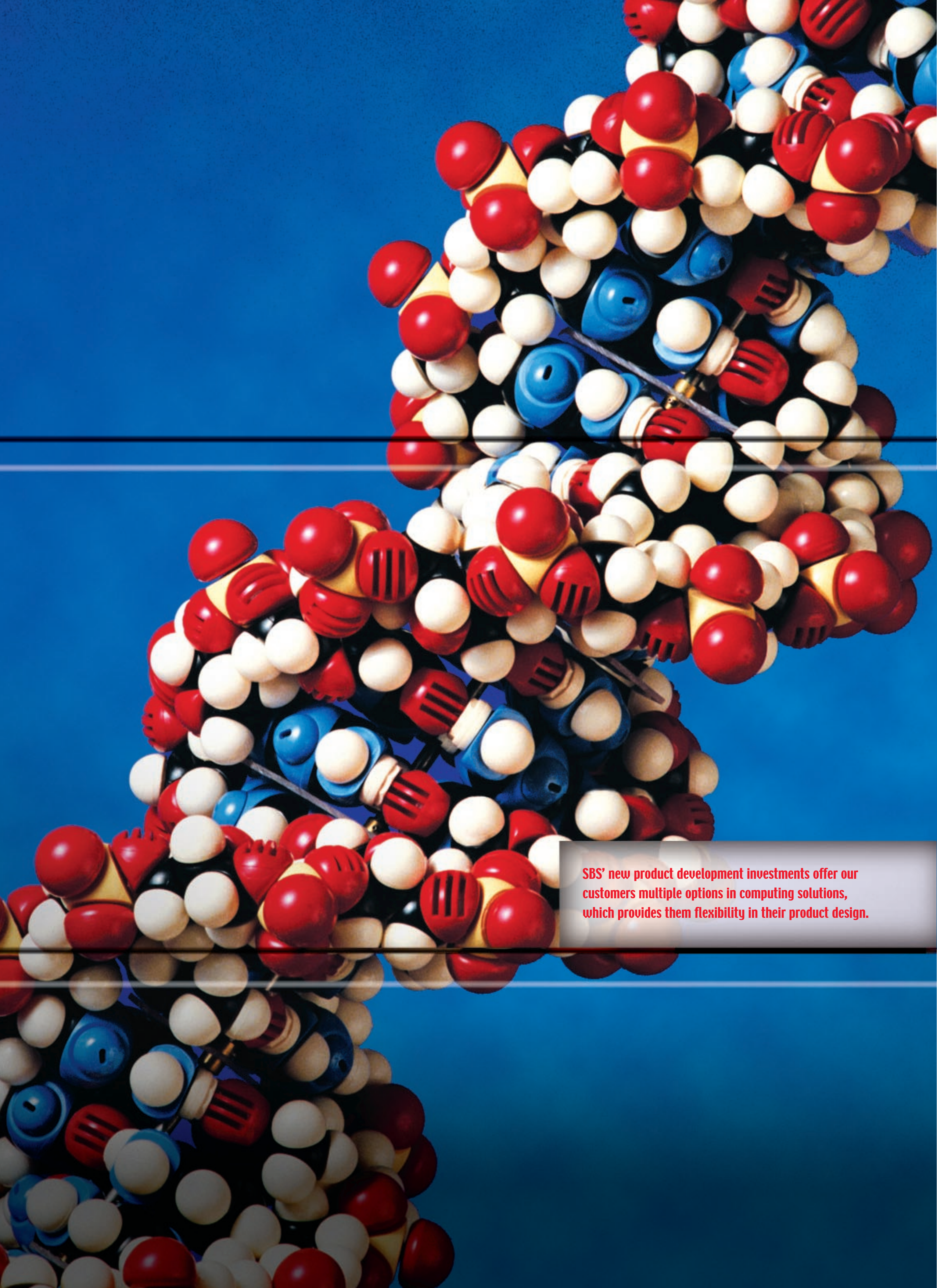


SBS provides embedded computers to customers for use in the integrated systems they manufacture and sell.  Since 1995, we have focused our efforts on building a strong team of employees dedicated to leading the embedded computer industry through innovative product development, augmented by excellent customer support. By steadily expanding the technology we offer, SBS has become a valuable teammate to our growing customer base. The result is a company that holds a preeminent market share in multiple market segments.

**Expanding Technologies & Services**




**SBS products include Pentium® and PowerPC™ based processor boards, Wide Area Network I/O, computer I/O and interconnection, proprietary software and protocol and integrated computing systems, all designed for the demanding application environments in which our products are used.**

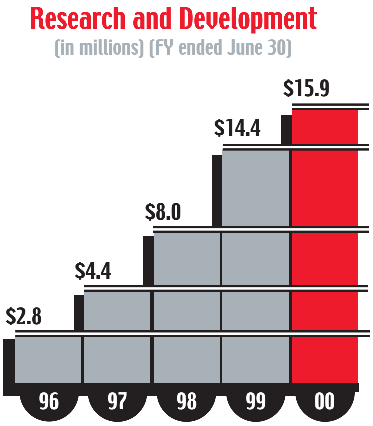


SBS' new product development investments offer our customers multiple options in computing solutions, which provides them flexibility in their product design.

# theMOTIVATION

## Why we will continue to succeed.

SBS continuously transforms itself as a company to seize new market opportunities and steadily positions itself for continued profitable growth by careful selection of the technologies we develop and the markets we serve. Because of our investments in research and development and business acquisitions, we're able to provide our customers significant reductions in both time-to-market and cost of new product development. This is critical in a world in which new product development cycles are measured in months rather than years.




SBS' modular products allow OEM customers off-the-shelf solutions for a wide variety of applications such as this Applied Biosystems ABI PRISM® 3700 DNA analyzer used to decode the human genome.

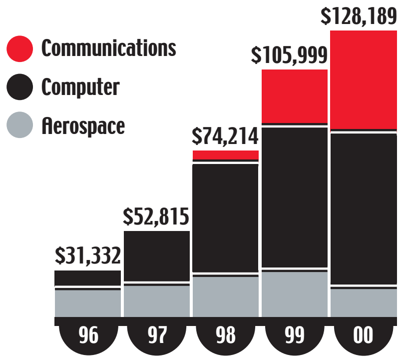
Our newer customers manufacture equipment such as DSL access multiplexers, wireless telephone base stations, optical switches and high-speed telecommunication routers.

# theEVOLUTION

## How big is our opportunity?

While continuing to serve long time customers like Applied Materials, Boeing, GE Medical, Lockheed Martin and Raytheon, SBS is also rapidly building a leading position in telecommunications. New, fast growing customers such as Ciena, Ericsson, Nokia and Nortel now rely on SBS products used in the build-out of broadband telecommunications infrastructure. Our foundation product businesses produce steady cash flow, while our investments in technology for high growth markets are producing rapid revenue and earnings growth. SBS has a balanced business portfolio that should produce growth and increased shareholder value.

Sales by Segment
(in millions) (FY ended June 30)




The rapidly expanding telecommunications market provides SBS an excellent opportunity for future growth.

# Financial Review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# Selected Financial Data

The following selected financial data for the years ended June 30, 1996 through June 30, 2000 have been derived from the audited consolidated financial statements of SBS Technologies, Inc. ("SBS"). This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the audited consolidated financial statements and related notes thereto included elsewhere herein.

| | Year ended June 30 | | | | |
|---|---|---|---|---|---|
| | 2000 | 1999 | 1998 | 1997 | 1996 |
| Sales | $128,188,773 | 105,999,233 | 74,213,901 | 52,814,568 | 31,331,793 |
| Net income | $ 8,902,607 | 12,278,388 | 10,090,188 | 461,685 | 3,580,907 |
| Net income per common share | $ 0.71 | 1.05 | 0.90 | 0.05 | 0.59 |
| Net income per common share – assuming dilution | $ 0.66 | 1.00 | 0.82 | 0.05 | 0.49 |
| Total assets | $133,160,257 | 92,007,855 | 74,315,187 | 61,165,014 | 20,443,672 |
| Long-term debt, excluding current installments | $ — | — | — | 2,816,251 | 5,188,320 |
| Total liabilities | $ 34,146,494 | 14,779,882 | 10,051,200 | 10,838,326 | 10,392,752 |
| Total stockholders' equity | $ 99,013,763 | 77,227,973 | 64,263,987 | 50,326,688 | 10,050,920 |

## Note:

SBS has not declared any dividends during the periods presented. No dividend payments are expected in the foreseeable future.

On August 18, 2000, SBS declared a two-for-one stock split for stockholders of record on September 5, 2000, payable on September 20, 2000. All references in this annual report to net income per common share, net income per common share – assuming dilution, common stock and stockholders' equity have been restated as if the stock split occurred as of the earliest period presented.

On April 12, 2000, SBS completed the purchase of SDL Communications, Inc. ("SDL"). In connection with the acquisition, SBS recorded a $4.0 million acquired in-process research and development charge in the fourth quarter of fiscal 2000.

For fiscal 2000, net income excluding the $4.0 million acquired in-process research and development charge would have been $12,902,607, net income per common share would have been $1.04 and net income per common share – assuming dilution would have been $0.95.

On December 20, 1999, SBS completed a pooling of interests transaction with SciTech, Inc. ("SciTech"). SciTech was subsequently merged into SBS Technologies, Inc. Communications Products (formerly V•I Computer) ("Communications Products"). SciTech's historical results did not have a material effect on combined financial position or results of operations, therefore the financial position and results of operations of SBS and SciTech are combined from October 1, 1999 on a prospective basis.

On August 12, 1998, SBS completed the purchase of Communications Products.

On July 1, 1998, SBS acquired, through its newly formed subsidiary SBS Technologies Holding GmbH, a 50.1% interest in **or** Industrial Computers GmbH ("**or**") and a 50.2% interest in **ortec** Electronic Assembly GmbH ("**ortec**"). SBS also acquired, through its wholly-owned subsidiary, SBS Technologies, Inc. Embedded Computers (formerly Logical Design Group, Inc.) ("Embedded Computers"), a 100% interest in **or** Computers, Inc. On December 9, 1998, SBS completed the purchases of the minority interest

in **or** and **ortec**. On April 12, 1999, **or** Computers, Inc. was merged into Embedded Computers.

For fiscal 1999, net income per common share – assuming dilution, includes a net benefit of approximately $0.05 related to non-recurring foreign exchange gains, tax credit adjustments and an acquired in-process research and development charge.

On November 24, 1997, SBS completed the purchase of SBS Technologies, Inc. Industrial Computers (formerly Micro Alliance, Inc.) ("Industrial Computers").

On November 18, 1996, SBS completed the purchase of SBS Technologies, Inc. Connectivity Products (formerly Bit 3 Computer Corporation) ("Connectivity Products"). In connection with the acquisition of Connectivity Products, SBS recorded an $11.0 million acquired in-process research and development charge in the second quarter of fiscal 1997.

On November 18, 1996, SBS consummated a fully underwritten public offering of 3,000,000 shares of SBS' Common Stock at a price of $12.8125 per share. The net proceeds to SBS from the public stock offering were used to fund the acquisition of Connectivity Products and to repay long-term debt, and the balance was used for general working capital requirements and acquisitions.

For fiscal 1997, net income excluding the $11.0 million acquired in-process research and development charge would have been $7,061,685 (net of income taxes). Net income per common share excluding the $11.0 million acquired in-process research and development charge would have been $0.78 and net income per common share – assuming dilution would have been $0.67.

On August 19, 1996, SBS completed a pooling of interests transaction with Embedded Computers, the results of which are included in fiscal 1997 on a prospective basis.

## Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations of SBS Technologies, Inc. and Subsidiaries

*All statements in this annual report, other than statements of historical fact, that address activities, events or developments that SBS or management intends, expects, projects, believes or anticipates will or may occur in the future are forward-looking statements. These statements and other forward-looking statements are based upon certain assumptions and assessments made by management of SBS in light of its experience and its perception of historical trends, current conditions, expected future developments and other factors it believes to be appropriate. The forward-looking statements included in this report are also subject to a number of risks and uncertainties, including but not limited to economic, competitive, supply and demand, governmental and technological factors affecting SBS' operations, markets, products, services and prices. These forward-looking statements are not guarantees of future performance, and actual results, developments and business decisions may differ from those expressed or implied by these forward-looking statements.*

### Overview

SBS is a leading designer and manufacturer of open-architecture, standard bus embedded computer components that system designers can easily utilize to create a custom solution specific to the user's unique application. SBS embedded computer components are used in OEM applications such as telecommunications base stations and routers, medical imaging machines, automation and control equipment, and aerospace devices. SBS has three operating segments: the Communications Group, the Computer Group, and the Aerospace Group. SBS' product lines include CPU (Pentium® and PowerPC™) boards, input/output ("I/O") modules, avionics modules and analyzers, computer connectivity products, expansion units, real-time networks, telemetry boards, DIN-rail embedded PCs, and industrial-grade computers.
It is SBS' objective to continue to capitalize on its design expertise and customer service capabilities to enhance product quality and reduce time to market for OEM customers. SBS has grown, and intends to continue to do so, through a combination of internal growth and acquisitions. SBS achieves internal growth by expanding its existing product lines through new

product development, through increasing penetration of its existing customer base and by adding new customers.

SBS entered the embedded computer market in 1988 with the development of its avionics interface board, which was used in ground-based avionics systems development and test applications. Today, SBS is a leading provider of MIL-STD-1553 and ARINC 429/575 interface modules and bus analysis systems for military, space and commercial avionics applications. SBS' products are the industry standard for quality and innovation and have been selected for major military programs, including the F-22, F-16 and B-2 aircraft, as well as in aerospace projects such as the International Space Station.

In 1992, SBS added a second embedded computer product line with the acquisition of SBS Technologies, Inc., Telemetry and Communications Products (formerly Berg Systems International) ("Telemetry"), a developer of telemetry interface circuit boards. Telemetry provides open architecture telemetry boards for aircraft, spacecraft, and launch-vehicle telemetry programs. Telemetry pioneered the concept of single-board telemetry solutions nearly a decade ago. The product line currently consists of telemetry receivers, downconverters, BPSK/QPSK modems, bit synchronizers, PCM decommutators and PCM simulators. Telemetry was merged into SBS effective June 23, 2000.

In 1995, SBS added a third embedded computer product line with the acquisition of SBS Technologies, Inc., Modular I/O (formerly GreenSpring Computer Corporation) ("Modular I/O"). Modular I/O designs, manufactures and markets modular I/O solutions using mezzanine standards such as IndustryPack®, PC•MIP™, and PMC for use with PCI, CompactPCI, VME, ISA, STD32, PC/104 and stand-alone embedded platforms. Currently, Modular I/O offers over 125 I/O modules for communications applications, network interface, video controller, digital I/O, analog I/O, motion control, field bus, temperature measurement and memory applications. In addition, Modular I/O has a line of conduction-cooled mezzanine I/O boards for use in non-air cooled, rugged environments.

In August 1996, SBS acquired Embedded Computers, a manufacturer of Intel processor-based CPU boards. This acquisition positioned SBS to take advantage of the growth in the use of both Intel processors and Microsoft software in the embedded computer market that utilizes the VME computer bus architecture.

In November 1996, SBS acquired Connectivity Products, a provider of high-performance, low latency bus connectivity products that include bus-to-bus adapters, bus expansion units and real-time coherent memory networks designed to operate in the most demanding applications.

Industrial Computers was added in November 1997, and specializes in the design and manufacture of rugged, special-purpose PC, and CompactPCI industrial and telecommunications platforms, enclosures and turnkey systems. It offers a variety of Intel and PowerPC™ CPU boards and system enclosures, including rackmount, benchtop, workstation and portable systems.

On July 1, 1998, SBS acquired, through its newly formed subsidiary SBS Technologies Holding GmbH, a 50.1% interest in **or**, a leading European designer of CPU boards utilized in a wide range of embedded computer applications. Based in Augsburg, Germany, **or** designs, manufactures and markets CPU boards based on Intel computer architecture available in the VME, CompactPCI, and PCCompact form factors, as well as VME CPU boards based on the Motorola 680X0 series processors and a series of computer input/output boards. As part of this acquisition, SBS acquired, through its newly formed subsidiary SBS Technologies Holding GmbH, a 50.2% interest in **ortec**, based in Mindelheim, Germany, a related company which manufactures **or**'s commercial products and electronic products for other customers. SBS also acquired, through its wholly-owned subsidiary Embedded Computers, based in Raleigh, NC, 100% of the shares of **or** Computers, Inc., which was the U.S. marketing support organization for the **or** product line and was subsequently merged into Embedded Computers. SBS purchased the remaining shares in **or** and **ortec** in December 1998.

On August 12, 1998, SBS purchased 100% of the outstanding shares of Communications Products. Based in Carlsbad, California, Communications Products designs, manufactures and markets CPU boards based on the PowerPC™ processor for embedded computer applications based on the VME, CompactPCI, PMC and stand-alone bus architecture standards.

On December 20, 1999, SBS acquired SciTech, a Madison, Wisconsin based designer and

manufacturer of communications network I/O products based on PMC and PCI form factors. SciTech was subsequently merged into Communications Products.

On April 12, 2000, SBS purchased 100% of the outstanding shares of SDL. Based in Mansfield, Massachusetts, SDL specializes in WAN I/O for the telecommunications and data communications market. SDL designs, manufactures and markets T1/E1, T3/E3, HSSI and OC3 products based on the PCI, CompactPCI and PMC form factors and supporting protocols such as Frame Relay, HDLC, PPP, X.25 and ATM. SDL's products support the operating systems most commonly used in communications applications.

## Recent Acquisitions

On April 12, 2000, SBS completed the acquisition of SDL. Before the acquisition, SDL was a privately held company. Located in Mansfield, Massachusetts, SDL specializes in the design, manufacture and sale of WAN I/O for the telecommunications and data communications markets. SDL designs, manufactures and markets T1/EI, T3/E3, HSSI and OC3 products based on the PCI, CompactPCI and PMC form factors and supporting protocols such as Frame Relay, HDLC, PPP, X.25 and ATM. In addition, SDL's products support the operating systems most commonly used in communications, including Windows NT, Solaris and VxWorks. SBS acquired all of the outstanding stock of SDL for $25.6 million in cash. Of the $25.6 million, $24.8 million was paid to the sellers at closing, and $0.8 million was paid to the sellers on June 27, 2000, upon finalizing the closing balance sheet. Acquisition costs associated with the purchase were $0.6 million. The purchase price also includes $1.2 million for the fair value of SBS options issued in exchange for unvested SDL options. The acquisition was funded with existing cash and a $20.0 million borrowing under SBS' Credit Agreement with Bank of America, N.A. The acquisition was accounted for under the purchase method, whereby the purchase price was allocated to the underlying assets and liabilities based upon their estimated fair values. Identifiable intangibles are being amortized over four to eight years and goodwill is being amortized over ten years. In connection with the acquisition, SBS recorded a $4.0 million earnings charge, based on an assessment by SBS, in conjunction with an independent valuation firm, of purchased technology of SDL. The assessment determined that $4.0 million of SDL's purchase price represented technology that did not meet the accounting definitions of "completed technology," and thus should be charged to earnings under generally accepted accounting principles. The assessment analyzed certain products that were in various stages of completion ranging from 35% of completion to 85% of completion, with estimated completion dates ranging from the third quarter of calendar 2000 to the second quarter of calendar 2001. The value assigned to acquired in-process research and development was determined based on estimates of the resulting net cash flows from the evaluated technology of SDL and the discounting of those cash flows to present value. In projecting net cash flows resulting from those products, management estimated revenues, cost of sales, selling expenses, research and development expenses and income taxes for those products. These estimates were based on the following assumptions:

- Estimated revenues projected a compound annual growth rate over seven years of 18%. Projections of revenue growth were based on management's estimates of market size and growth supported by analysts' estimates and by the nature and expected timing of the development of the products by SBS and its competitors.
- The estimated cost of sales as a percentage of revenue, initially at 64% declining to 50%, was consistent with the historical rates for SDL's business as well as historical results of companies operating within the industry.
- Estimated selling expenses were expected to remain consistent as a percentage of sales, with an average of 14% to 15%.
- The estimated research and development costs were expected to remain consistent as a percentage of sales at 3.5% as most research and development efforts are in the maintenance phase.
- An effective tax rate of 40% was estimated.

The projected net cash flows for the in-process projects were discounted using a 30% weighted-average cost of capital ("WACC"). The calculation produces the average required rate of return of an investment in an operating enterprise. The WACC selected was based upon the risk/return characteristics of the subject asset class. A WACC of 25% or 26% was used to determine the value of the return of the core

developed technology, the customer list and all other intangibles acquired as part of the purchase of SDL. The fair value of the purchased technology was determined in accordance with the views expressed by the staff of the Securities and Exchange Commission. The financial results of SDL have been included in SBS' Consolidated Financial Statements from April 12, 2000.

On December 20, 1999, SBS acquired SciTech, a Madison, Wisconsin based designer and manufacturer of communications network I/O products based on PMC and PCI form factors. The acquisition qualified as a pooling of interests for accounting purposes and constituted a tax-free reorganization for federal income tax purposes. Under the terms of the agreement, SciTech's shareholders exchanged all outstanding shares of SciTech stock for 349,726 shares of SBS' stock. SciTech was subsequently merged into Communications Products. SciTech's historical results do not have a material effect on combined financial position or results of operations, and as such, the financial position and results of operations of SBS and SciTech are combined from October 1, 1999 on a prospective basis.

On August 12, 1998, SBS completed the purchase of Communications Products. Based in Carlsbad, California, Communications Products designs, manufactures and markets CPU boards based on the PowerPC™ processor for computer applications that utilize VME and CompactPCI bus standards. SBS acquired all of the outstanding capital stock of Communications Products for a total purchase price of $5.3 million. The acquisition was accounted for using the purchase method of accounting, and goodwill is being amortized over ten years. The financial results of Communications Products have been included in SBS' Consolidated Financial Statements from August 12, 1998.

On July 1, 1998, SBS acquired through its newly formed subsidiary, SBS Technologies Holding GmbH, a 50.1% interest in **or**. Based in Augsburg, Germany, **or** designs, manufactures and markets CPU boards utilized in a wide range of embedded computer applications. As part of the acquisition, SBS acquired, through its newly formed subsidiary, SBS Technologies Holding GmbH, a 50.2% interest in **ortec**, a Mindelheim, Germany based related company which manufactures **or**'s commercial products and electronic products for other customers. SBS also acquired, through its wholly-owned subsidiary, Embedded Computers, based in Raleigh, North Carolina, a 100% interest in **or** Computers, Inc., based in Fairfax, Virginia, which was the U.S. marketing support organization for the **or** product line. Effective April 12, 1999, **or** Computers, Inc. was merged into Embedded Computers. The purchase price, excluding transaction costs, for the majority interest in the two companies based in Germany and 100% of **or** Computers, Inc. was DM 17.5 million, approximately $9.7 million, paid in cash and 48,000 shares of common stock valued at $0.7 million at closing. In addition, SBS and the shareholders of both **or** and **ortec** entered into exclusive option agreements whereby SBS could acquire the remaining shares of both companies on February 28, 1999. In December 1998, SBS modified the option agreements, accelerating the purchase of the remaining interest in **or** and **ortec** from February 28, 1999 to December 9, 1998. The purchase price, excluding transaction costs, for the remaining interest in the two companies based in Germany was DM 18.2 million. SBS disbursed the cash, approximately $10.4 million, including interest at 4.0%, during the quarter ended March 31, 1999. Acquisition costs associated with the purchases were approximately $1.1 million. The acquisitions were accounted for using the purchase method of accounting and goodwill is being amortized over a ten year period. In connection with the initial acquisition, SBS recorded a $0.5 million earnings charge, based on an assessment by SBS, in conjunction with an independent valuation firm, of purchased technology of **or**. The assessment determined that $0.5 million of **or**'s purchase price represented technology that did not meet the accounting definitions of "completed technology," and thus should be charged to earnings under generally accepted accounting principles. This assessment analyzed certain VME, CompactPCI, and PCCompact products that were under development at the time of acquisition. These programs were in various stages of completion ranging from initial development to 90% of completion, with estimated completion dates ranging from September 1998 through April 1999. The fair value of these development programs was determined in accordance with views expressed by the staff of the Securities and Exchange Commission. In conjunction with the acquisition of the remaining interest of **or** completed on December 9, 1998, all projects in process at the date of the initial acquisition had been substantially completed so that no additional in-process research and development was acquired. The financial results

of **or**, **ortec** and **or** Computers, Inc. have been included in SBS' Consolidated Financial Statements from July 1, 1998.

In June 1999, SBS formed through SBS Technologies Holding GmbH, SBS Technologies Europe GmbH ("SBS Europe") to act as a sales and marketing agent in Europe. SBS also formed SBS Technologies, Inc. Foreign Holding Company, a Nevada Corporation, to act as the holding company for all current and future off-shore owned entities.

In August 1999, SBS formed a partnership between SBS Technologies Holding GmbH, **or**, and the newly formed general partner, SBS **or** Computers Verwaltungs GmbH.

On November 24, 1997, SBS completed the purchase of Industrial Computers, a privately held San Diego County, California based manufacturer specializing in the design and manufacture of rugged, special-purpose PC and CompactPCI industrial and telecommunications platforms, enclosures and turnkey systems and offering a variety of Intel and PowerPC™ CPU boards and system enclosures, including rackmount, benchtop, workstation and portable systems. SBS acquired all of the outstanding capital stock of Industrial Computers for a total purchase price of $5.8 million. The acquisition was accounted for using the purchase method of accounting and goodwill is being amortized over a ten year period. The financial results of Industrial Computers have been included in SBS' Consolidated Financial Statements from November 24, 1997.

The following pro forma consolidated results of operations have been prepared as if the acquisitions of SDL, Communications Products and the minority interest in **or** and **ortec** had occurred at the beginning of each year presented to the extent not included in historical results.

(in thousands except per share amounts)

| | June 30 2000 | June 30 1999 |
|---|---|---|
| Sales | $ 139,536 | 117,497 |
| Net income | 10,745 | 7,910 |
| Net income per common share | 0.86 | 0.68 |
| Net income per common share – assuming dilution | 0.79 | 0.64 |

The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of those dates, nor is it intended to be a projection of future results. For the years ended June 30, 2000 and 1999, non-recurring acquired in-process research and development charges directly attributable to the acquisition of SDL on April 12, 2000 of $4.0 million and $0.5 million related to the acquisition of the majority interest in **or** on July 1, 1998 were not included in the pro forma consolidated results of operations.

## Results of Operations

The following table sets forth for the periods indicated certain operating data as a percentage of sales:

| | Year ended June 30 | | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 47.7 | 42.0 | 42.8 |
| Gross profit | 52.3 | 58.0 | 57.2 |
| Selling, general and administrative expense | 20.5 | 22.6 | 22.8 |
| Research and development expense | 12.5 | 13.5 | 10.8 |
| Acquired in-process research and development charge | 3.1 | 0.5 | — |
| Amortization of intangible assets | 3.9 | 3.8 | 2.6 |
| Operating income | 12.3 | 17.6 | 21.0 |
| Interest income (expense), net | — | — | 1.3 |
| Foreign exchange gains (losses) | (0.1) | 0.6 | — |
| Income before income taxes and minority interest | 12.2 | 18.2 | 22.3 |
| Income taxes | 5.2 | 6.3 | 8.7 |
| Income before minority interest | 7.0 | 11.9 | 13.6 |
| Minority interest | — | 0.4 | — |
| Net income | 7.0% | 11.5% | 13.6% |

### Year ended June 30, 2000 Compared to Year Ended June 30, 1999

**Sales.** In fiscal 2000, sales increased 20.9%, or $22.2 million, from $106.0 million in fiscal 1999, to $128.2 million. Of this 20.9% increase, sales contributed by SDL, which was acquired on April 12, 2000, comprised 4.3%, and 16.6% was attributable to SBS' other product lines. Unit shipments increased within the Computer Group segment, primarily due to an increase in sales of the Group's computer processor products and general purpose I/O products, partially offset by pricing pressure, the negative impact of changes in exchange rates on sales and a decrease in sales of the Group's bus-to-bus adapter products. Unit shipments increased among all product lines within the Communications Group (excluding the effect of the SDL acquisition) but the increase in unit shipments was also partially offset by pricing pressure. Unit shipments declined within the Aerospace Group, primarily due to a decline in large project bookings, declines in the commercial satellite and military markets which the Areospace Group serves and a decline in major new aircraft development programs. Currently, management does not expect a further decline in Aerospace Group sales or sales of bus-to-bus adapter products to continue in fiscal 2001.

**Gross Profit.** In fiscal 2000, gross profit increased 8.9%, or $5.5 million, from $61.5 million in fiscal 1999, to $67.0 million. Of this 8.9% increase, 3.8% was due to the acquisition of SDL. As expected, gross profit as a percentage of sales decreased to 52.3% in fiscal 2000 from 58.0% in fiscal 1999, primarily due to a higher percentage of sales of SBS' Communications Group products, which generally yield lower margins than SBS' other products, and lower margins experienced by the Computer Group and the Aerospace Group. Management expects gross margins as a percentage of sales to continue to decrease, as SBS' lower margin production and systems business is expected to continue to represent a larger portion of the total sales mix.

**Selling, General and Administrative Expense.** In fiscal 2000, selling, general and administrative expense increased 9.8%, or $2.3 million from $24.0 million in fiscal 1999, to $26.3 million. Of this 9.8% increase, 2.0% resulted from the acquisition of SDL, and 7.8% was primarily due to an increase in costs commensurate with the growth of the Communications Group and to the formation of SBS Europe to act as a sales and marketing agent in Europe, partially offset by a decrease in costs within the Aerospace Group. In fiscal 2000, selling, general and administrative expense as a percentage of sales decreased to 20.5% from 22.6% in fiscal 1999, as the increase in sales volume more than offset the increase in expense.

**Research and Development Expense.** In fiscal 2000, research and development expense increased by 11.1%, or $1.6 million, from $14.4 million in fiscal 1999, to $15.9 million. Of this 11.1% increase, 3.7% resulted from the acquisition of SDL, and 7.4% was primarily due to increased investment in product development within the Communications Group commensurate with the growth of the segment, partially offset by a reduction in costs within the Aerospace Group. In fiscal 2000, research and development expense as a percentage of sales decreased to 12.5% from 13.5% in fiscal 1999, as the increase in sales volume more than offset the increase in expense.

**Acquired In-Process Research and Development Charge.** In fiscal 2000 and fiscal 1999, in connection with the acquisition of SDL, completed on April 12, 2000, and in connection with the acquisition of the majority interest in **or** completed on July 1, 1998, SBS recorded earnings charges of $4.0 million, and $0.5 million, respectively, based on assessments by SBS, in conjunction with independent valuation firms, of purchased technology. These assessments determined that $4.0 million of SDL's purchase price and $0.5 million of **or**'s purchase price represented technology that did not meet the accounting definitions of "completed technology," and thus should be charged to earnings under generally accepted accounting principles (see "Recent Acquisitions"). In conjunction with the acquisition of the remaining interest in **or** in December 1998, all projects in-process had been substantially completed so that no additional in-process research and development was acquired.

**Amortization of Intangible Assets.** In fiscal 2000, amortization of intangible assets increased 25.9%, or $1.0 million from $4.0 million in fiscal 1999, to $5.0 million. This increase was primarily the result of the amortization of goodwill and identifiable intangibles associated with the acquisition of SDL and the acquisition of the minority interest in **or** and **ortec** in December of 1998, partially offset by the favorable impact of changes in exchange rates.

**Interest Income.** In fiscal 2000, interest income increased 50.5%, or $151,000, from $298,000 in fiscal 1999, to $449,000. This increase was primarily due to interest income associated with amendments of prior years' tax returns for research and experimental tax credits, as well as an increase in interest income associated with SBS' surplus cash.

**Interest Expense.** In fiscal 2000, interest expense increased 56.8%, or $163,000, from $288,000 in fiscal 1999, to $451,000. This increase was primarily due to interest associated with the $20.0 million of borrowings used to fund the acquisition of SDL, partially offset by the elimination of interest expense associated with the $10.4 million payment made in February 1999 for the remaining interest in **or** and **ortec**.

**Foreign Exchange Gains (Losses).** In fiscal 2000, the $144,000 of foreign exchange losses were primarily attributable to the change in exchange rates relating to interest payable on debt from SBS' foreign subsidiary. In fiscal 1999, the $667,000 of foreign exchange gains were primarily attributable to the change in exchange rates between December 9, 1998 and February 28, 1999, relating to the DM 16.7 million of payments made during the quarter ended March 31, 1999 for the remaining interests in **or** and **ortec** (see "Recent Acquisitions").

**Income Taxes.** For fiscal 2000 and fiscal 1999, income taxes represented effective income tax rates of 42.9% and 34.3%, respectively. The increase in the effective rate was primarily due to a non-deductible acquired in-process research and development charge and non-deductible goodwill amortization expense associated with the acquisition of SDL, partially offset by tax planning strategies implemented by SBS, including minimization of SBS' tax liability related to debt between SBS and its foreign subsidiaries, and increased use of SBS' foreign sales corporation. Additionally, the fiscal 1999 effective tax rate included a $0.5 million benefit from research and experimental tax credits related to prior years.

**Earnings per Share.** For fiscal 2000, net income per common share was $0.71 compared to $1.05 for

fiscal 1999. Net income per common share – assuming dilution was $0.66 for fiscal 2000 compared to $1.00 for fiscal 1999. For fiscal 2000, net income per common share – assuming dilution, excluding the acquired in-process research and development charge, would have been $0.95. For fiscal 1999, net income per common share – assuming dilution, excluding the net benefits related to non-recurring foreign exchange gains, tax credit adjustments and an acquired in-process research and development charge, would have been $0.95. Net income per common share and net income per common share – assuming dilution have been restated to reflect the two-for-one stock split declared August 18, 2000.

## Review of Business Segments

SBS is managed and operates through three operating segments: the Communications Group, the Computer Group and the Aerospace Group. The Communications Group was established this fiscal year, and includes Communications Products and Industrial Computers (which were included in the Computer Group prior to this time) and SDL. The European Group which consisted of **or** and **ortec** has been merged into the Computer Group, as their business is closely related to the processor and I/O product businesses and is now under the same management. Reportable segments for all periods have been reclassified to conform to the new segment reporting structure.

The following is a discussion of sales to external customers and segment profit for each reportable segment. SBS does not allocate to these segments costs associated with its corporate headquarters, substantially all of the amortization expense associated with acquisitions, substantially all interest income earned on cash balances, interest expense associated with SBS borrowing facilities or acquired in-process research and development charges. This measure of segment profit described above is referred to in this review as "Segment Profit."

### Communications Group

| | Sales to External Customers | Segment Profit |
|---|---|---|
| FY00 | $ 43.9 million | $ 10.2 million |
| FY99 | $ 19.3 million | $ 3.9 million |

Communications Group sales to external customers in fiscal 2000 increased 127.1%, or $24.6 million, from $19.3 million in fiscal 1999, to $43.9 million. Of this 127.1% increase, sales contributed from the acquisition of SDL on April 12, 2000 accounted for 23.3% of the increase. Sales of the Group's system and enclosure products and sales of the Group's PowerPC™ based processor products increased 18.3% and 179.5%, respectively, as compared to fiscal 1999. These increases in sales represent volume increases, partially offset by competitive pricing pressure.

Communications Group segment profit in fiscal 2000 increased 161.9%, or $6.3 million, from $3.9 million in fiscal 1999, to $10.2 million. This increase was primarily due to earnings contributed by the acquisition of SDL on April 12, 2000 and an increase in sales among the Group's other product lines, partially offset by an increase in selling, general and administrative and research and development expenses commensurate with the growth of the segment. For the same reasons, segment profit as a percentage of sales increased from 20.2% in fiscal 1999 to 23.2% in fiscal 2000.

## Computer Group

| | Sales to External Customers | Segment Profit |
|---|---|---|
| FY00 | $ 58.1 million | $ 11.9 million |
| FY99 | $ 54.8 million | $ 12.8 million |

Computer Group sales to external customers in fiscal 2000 increased 6.0%, or $3.3 million from $54.8 million in fiscal 1999, to $58.1 million. Sales of the Group's general purpose I/O products and sales of the Group's computer processor products increased 11.4% and 12.2%, respectively, as compared to fiscal 1999. This increase was partially offset by a decrease in sales of the Group's bus-to-bus adapter products, primarily the result of a decrease in inventory requirements from a large customer, a decrease in export sales and continued migration from older more expensive bus technologies to PCI-based applications. Currently, management does not expect the decrease in sales of bus-to-bus adapter products to continue in fiscal 2001. Overall, the Group experienced competitive pricing pressure as well as the negative impact of changes in exchange rates on sales, as the U.S. dollar strengthened against the Deutsche mark.

Computer Group segment profit decreased 7.1%, or $900,000, from $12.8 million in fiscal 1999, to $11.9 million. This decrease was primarily due to lower margins experienced across the Group's product lines, the decrease in sales of the Group's bus-to-bus adapter products and an increase in selling, general and administrative expense primarily associated with the formation of SBS Europe to act as a selling and marketing agent in Europe. For the same reasons, segment profit as a percentage of sales decreased from 23.4% in fiscal 1999 to 20.5% in fiscal 2000.

## Aerospace Group

| | Sales to External Customers | Segment Profit |
|---|---|---|
| FY00 | $ 26.2 million | $ 6.9 million |
| FY99 | $ 31.9 million | $ 10.8 million |

Aerospace Group sales to external customers in fiscal 2000 decreased 17.9%, or $5.7 million, from $31.9 million for fiscal 1999, to $26.2 million. Sales of the Group's avionics interface products and sales of the Group's telemetry products decreased 12.6% and 31.6%, respectively, compared to fiscal 1999. These decreases were primarily the result of declines in large project bookings and declines in the commercial satellite and military markets which the Aerospace Group serves, as well as a decline in major new aircraft development programs. Management expects no growth in Aerospace Group sales to external customers in fiscal 2001.

Aerospace Group segment profit decreased 35.9%, or $3.9 million, from $10.8 million for fiscal 1999, to $6.9 million. This decrease was primarily due to lower sales of the Group's telemetry and avionics interface product lines and a shift in sales mix to lower margin products, partially offset by reductions in research and development and selling, general and adminstrative expense. For the same reasons, segment profit as a percentage of sales decreased from 33.7% in fiscal 1999 to 26.3% in fiscal 2000.

## Liquidity and Capital Resources

SBS uses a combination of the sale of equity securities, internally generated funds and bank borrowings to finance its acquisitions, working capital requirements, capital expenditures and operations.

Cash totaled $3.6 million at June 30, 2000, an increase of $95,000 from June 30, 1999. This increase was the result of $4.9 million of cash provided by operating activities, $9.3 million from the exercise of stock options and warrants and $20.0 million drawn against SBS' $30.0 million Credit Agreement with Bank of America, N.A. (formerly NationsBank, N.A.) used to finance the acquisition of SDL, offset by the acquisition of SDL for $24.7 million, net of cash acquired, $1.9 million for the acquisition of property and equipment, $2.0 million to enter into a licensing agreement for fibre channel technology, $4.0 million of payments on SBS' notes payable, $1.4 million of payments to the former shareholder of **or** and $0.4 million of dividends paid to the former shareholders of SciTech, in conjunction with the acquisition accounted for as a pooling of interests. SBS' growth during the fiscal year caused SBS to increase accounts receivable and inventory. Liabilities were in line with the current level of business.

In fiscal years ended June 30, 1999 and June 30, 1998, SBS generated $10.3 million and $8.7 million, respectively, of positive cash flow from operating activities. In fiscal 1999, the positive cash flow from operating activities and surplus cash, combined with borrowings under SBS' Credit Agreement, provided sufficient funds to acquire Communications Products, **or**, **ortec** and **or** Computers Inc. In fiscal 1998, the positive cash flow from operating activities provided SBS sufficient funds to acquire Industrial Computers in November 1997.

On December 1, 1998, SBS entered into a $15.0 million Credit Agreement ("Agreement") with Bank of America, N.A. The Agreement expired on November 30, 1999, but was modified to extend the expiration date to January 31, 2000. Effective January 31, 2000, the Agreement was renewed and modified, allowing for $25.0 million of borrowings with an expiration date of November 30, 2001. Effective March 31, 2000, the Agreement was modified, allowing for $30.0 million of borrowings with an expiration date of March 31, 2001. The Agreement also amends the Tangible Net Worth covenant whereby stockholders' equity less the net book value of intangible assets and unamortized debt discount and expenses cannot be less than $30.0 million, plus 75% of the cumulative consolidated net income for each calendar quarter commencing on October 1, 1998, through the quarter of measurement, plus 75% of the amount of any proceeds received from the issuance of any additional shares of stock or other equity instruments, excluding proceeds from the exercise of stock options, reduced by $8,000,000. Additionally, in consideration of the increase in the available commitment and other modifications, the Agreement was modified to include a pledge of SBS' accounts receivable and inventory as collateral. As of June 30, 2000, borrowings drawn on the Agreement totaled $20.0 million, and SBS was in compliance with all of the covenants of the Agreement. Management believes that its financial resources, including its internally generated funds and debt capacity will be sufficient to finance SBS' current operations and capital expenditures, excluding acquisitions, for the next twelve months. At June 30, 2000, there were no material outstanding commitments for capital expenditures.

For the period ended June 30, 2000, there was no significant impact from inflation. However, competitive pricing pressure adversely impacted SBS' sales, gross profit and income from operations (see "Results of Operations"). Additionally, SBS has experienced and expects to continue to experience component part shortages. In order to help prevent shortages of critical components, SBS has begun to build inventory of these components. To date, the shortages have had minimal impact on results of operations. However, the impact of these shortages on future periods cannot be predicted with certainty.

## Euro Conversion

On January 1, 1999, eleven of the fifteen member countries of the European Union adopted the euro as their common legal currency and established fixed conversion rates between their existing sovereign currencies and the euro. The legacy currencies of the participating European Union members will remain legal tender in the participating countries for the transition period from January 1, 1999 to January 1, 2002. Beginning January 1, 2002, the participating countries will issue new euro-denominated bills and coins for use

in cash transactions. Legacy currencies will no longer be legal tender for any transactions beginning July 1, 2002, making conversion to the euro complete. SBS is assessing its need to adapt information technology and other systems to accommodate euro-denominated transactions, any potential impact on terms and enforceability of legacy denominated contracts and potential tax consequences of currency conversion. This assessment is being conducted to determine whether the euro conversion will have a material adverse effect on SBS' financial position, results of operations or liquidity.

## New Accounting Standards

In June 2000, Statement of Financial Accounting Standards ("SFAS") 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS 133" was issued. SFAS 133, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The provisions of this statement are effective at the later of the first fiscal quarter beginning after June 15, 2000, or upon adoption of SFAS 133. SBS will adopt the provisions of this SFAS on July 1, 2000. SBS does not expect that adoption of this standard will have a material effect on its financial position or results of operations.

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation: an Interpretation of APB Opinion No. 25." This interpretation clarifies the application of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and is effective July 1, 2000. SBS does not expect the adoption of this interpretation to have a material effect on its financial position or results of operations.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements." This bulletin summarizes certain of the staff's views in applying generally accepted accounting principles to revenue recognition in financial statements. In June 2000, the Securities and Exchange Commission issued SAB No. 101B that delayed the implementation date of SAB No. 101 until the fourth fiscal quarter of fiscal years beginning after December 15, 1999, although early adoption is allowed. SBS does not expect the adoption of the provisions of this statement to have a material effect on its financial position or results of operations.

### Year ended June 30, 1999
### Compared to Year Ended June 30, 1998

**Sales.** In fiscal 1999, sales increased 42.8%, or $31.8 million, from $74.2 million in fiscal 1998, to $106.0 million. Of this 42.8% increase, sales contributed by Communications Products, which was acquired on August 12, 1998, comprised 13.8%, sales contributed by **or**, **ortec** and **or** Computers, Inc., which were acquired on July 1, 1998, comprised 18.9%, sales contributed by Industrial Computers, which was acquired on November 24, 1997, comprised 4.9%, and 5.2% was attributable to SBS' other product lines. Throughout fiscal 1999, prices for SBS' products remained firm, and unit shipments increased across all product lines, with the exception of SBS' U.S. built CPU products manufactured by Embedded Computers and Modular I/O product lines, which declined compared to fiscal 1998. The sales of SBS' CPU and Modular I/O products decreased 9.0% compared to fiscal 1998, primarily due to the effects of a slowdown in the semiconductor industry and the Asian currency and economic crisis.

**Gross Profit.** In fiscal 1999, gross profit increased 45.0%, or $19.1 million, from $42.4 million in fiscal 1998, to $61.5 million. Of this 45.0% increase, 34.2% was due to the acquisitions of Communications Products, **or**, **ortec**, **or** Computers, Inc., and Industrial Computers, and 10.8% was due to increased sales volume over fixed costs and material cost improvements in SBS' other product areas, as well as a higher percentage of sales of SBS' Aerospace and Connectivity products, which generally yield higher margins than SBS' other products. For the same reasons, in fiscal 1999, gross margin increased to 58.0% of sales from 57.2% in fiscal 1998.

**Selling, General and Administrative Expense.** In fiscal 1999, selling, general and administrative expense increased 42.0%, or $7.1 million from $16.9 million in fiscal 1998, to $24.0 million. Of this 42.0% increase, 24.0% resulted from the acquisitions of Communications Products, **or**, **ortec**, **or** Computers, Inc., and Industrial Computers, and 18.0% was due to additional salaried sales personnel as SBS transitioned from an independent sales force to

a direct sales force, as well as additional administrative staffing and promotional costs commensurate with the growth of SBS. In fiscal 1999, selling, general and administrative expense as a percentage of sales was consistent at 22.6%, compared to 22.8% in fiscal 1998, in line with the increase in sales volume.

**Research and Development Expense.** In fiscal 1999, research and development expense increased by 79.8%, or $6.4 million, from $8.0 million in fiscal 1998, to $14.4 million. Of this 79.8% increase, 41.3% resulted from the acquisitions of Communications Products, **or**, **ortec**, **or** Computers, Inc., and Industrial Computers, and 38.5% was due to increased investment in product development in SBS' other product areas. For the same reasons, in fiscal 1999, research and development expense increased to 13.5% of sales from 10.8% in fiscal 1998.

**Acquired In-Process Research and Development Charge.** In fiscal 1999, in connection with the acquisition of the majority interest in **or** completed on July 1, 1998, SBS recorded a $0.5 million earnings charge based on an assessment by SBS, in conjunction with an independent valuation firm, of purchased technology of **or**. The assessment determined that $0.5 million of **or**'s purchase price represented technology that did not meet the accounting definitions of "completed technology," and thus should be charged to earnings under generally accepted accounting principles (see "Recent Acquisitions"). In conjunction with the acquisition of the remaining interest in **or**, all projects in process had been substantially completed so that no additional in-process research and development was acquired.

**Amortization of Intangible Assets.** In fiscal 1999, amortization of intangible assets increased 105.4%, or $2.1 million from $1.9 million in fiscal 1998, to $4.0 million. This increase was the result of the amortization of goodwill associated with the acquisitions of Communications Products, **or**, **ortec** and Industrial Computers.

**Interest Income.** In fiscal 1999, interest income decreased 73.4%, or $822,000, from $1.1 million in fiscal 1998, to $298,000. This decrease was primarily due to the reduction in interest earned on cash, as SBS' cash decreased due to the $3.0 million final payment to the former owners of Connectivity Products on July 1, 1998, the $20.2 million of payments (net of cash acquired) for the acquisitions of **or**, **ortec**, and **or** Computers, Inc., the $5.1 million payment (net of cash acquired) for the acquisition of **or, ortec** and **or** Computers, Inc., the $5.1 million payment (net of cash acquired) for the acquisition of Communications Products, $2.4 million for the acquisition of property and equipment and $1.6 million in capital expenditures for leasehold improvements at SBS' new facility located in Carlsbad, California.

**Interest Expense.** In fiscal 1999, interest expense increased 53.2%, or $100,000, from $188,000 in fiscal 1998, to $288,000. This increase was due to interest associated with the $7.9 million of borrowings drawn under SBS' line of credit, as well as interest paid on the $10.4 million payment for the remaining interest in **or** and **ortec**, partially offset by the elimination of the imputed interest expense associated with the notes payable to the former owners of Connectivity Products.

**Foreign Exchange Gains.** In fiscal 1999, the $667,000 of foreign exchange gains were primarily attributable to the change in exchange rates between December 9, 1998 and February 28, 1999, relating to the DM 16.7 million of payments made during the quarter ended March 31, 1999 for the remaining interests in **or** and **ortec** (see "Recent Acquisitions").

**Income Taxes.** For fiscal 1999 and fiscal 1998, income taxes represented effective income tax rates of 34.3% and 39.0%, respectively. The decrease in the effective rate was due to tax planning strategies implemented by SBS, including research and experimental tax credits (including $0.5 million of credits related to prior years) and increased use of SBS' foreign sales corporation, partially offset by a higher effective tax rate in Germany.

**Earnings per Share.** For fiscal 1999, net income per common share was $1.05 compared to $0.90 for fiscal 1998. Net income per common share – assuming dilution was $1.00 for fiscal 1999 compared to $0.82 for fiscal 1998. Included in net income per common share and net income per common share – assuming dilution for fiscal 1999 is a net benefit of approximately $0.05 related to non-recurring foreign exchange gains, tax credit adjustments and an acquired in-process research and development charge. Net income per common share and net income per common share – assuming dilution have been restated to reflect the two-for-one stock split declared August 18, 2000.

## Review of Business Segments

The following is a discussion of sales to external customers and segment profit for each reportable segment. SBS does not allocate to these segments costs associated with its corporate headquarters, substantially all of the amortization expense associated with acquisitions, substantially all interest income earned on cash balances, interest expense associated with SBS borrowing facilities, or acquired in-process research and development charges. This measure of segment profit described above is referred to in this review as "Segment Profit."

### Communications Group

| | Sales to External Customers | Segment Profit |
|---|---|---|
| FY99 | $ 19.3 million | $ 3.9 million |
| FY98 | $ 4.8 million | $ 0.8 million |

Communications Group sales to external customers in fiscal 1999 increased 301.9%, or $14.5 million, from $4.8 million in fiscal 1998, to $19.3 million. Of this 301.9%, sales contributed from the acquisitions of Communications Products and Industrial Computers accounted for 289.4% of the increase. The balance of the increase, 12.5%, was attributable to organic growth in sales of the Group's system and enclosure products.

Communications Group segment profit in fiscal 1999 increased 390.6%, or $3.1 million, from $0.8 million in fiscal 1998, to $3.9 million. This increase was primarily due to earnings contributed by the acquisitions of Communications Products and Industrial Computers and the net margin attributable to the organic growth in sales of the Group's system and enclosure products. For the same reasons, segment profit as a percentage of sales increased from 16.5% in fiscal 1998 to 20.2% in fiscal 1999.

## Computer Group

| | Sales to External Customers | Segment Profit |
|---|---|---|
| FY99 | $ 54.8 million | $ 12.8 million |
| FY98 | $ 40.3 million | $ 10.5 million |

Computer Group sales to external customers in fiscal 1999 increased 36.0%, or $14.5 million from $40.3 million in fiscal 1998, to $54.8 million. Of this 36.0%, sales contributed by the acquisitions of **or**, **ortec** and **or** Computers Inc. accounted for 34.8% of the increase. Sales of the Group's computer connectivity and expansion unit products increased 14.0% compared to fiscal 1998, partially offset by a 9.0% decline in sales of the Group's I/O products and the Group's U.S. built computer processor products. These declines were primarily due to the effects of a slowdown in the semiconductor industry and the Asian currency and economic crisis.

Computer Group segment profit increased 22.4%, or $2.3 million, from $10.5 million in fiscal 1998, to $12.8 million. This increase was primarily due to earnings contributed by the acquisitions of **or**, **ortec** and **or** Computers Inc., and the increase in net margin contribution attributable to the increase in sales of the Group's computer connectivity and expansion products, partially offset by the effect on net margin from the decrease in sales of the Group's I/O products and the Group's U.S. built computer processor products, as well as an overall shift to lower margin products. Segment profit as a percentage of sales decreased from 26.0% in fiscal 1998 to 23.4% in fiscal 1999, primarily due to an increase in sales expense as the Group strengthened its sales force and increased investment in product development.

## Aerospace Group

| | Sales to External Customers | Segment Profit |
|---|---|---|
| FY99 | $ 31.9 million | $ 10.8 million |
| FY98 | $ 29.1 million | $ 11.0 million |

Aerospace Group sales to external customers in fiscal 1999 increased 9.4%, or $2.8 million, from $29.1 million in fiscal 1998, to $31.9 million. In fiscal 1999, sales of the Group's avionics interface products increased 4.8% over fiscal 1998, a reduced rate of growth compared to that experienced by the Group in the past several years. Management believes that this reduced growth was the result of the Group's high market share of its avionics interface products and a decline in defense electronics research and development expenditures. Sales of the Group's telemetry products increased 23.5% in fiscal 1999 over fiscal 1998 as the Group increased its participation in the military and commercial satellite market.

Aerospace Group segment profit in fiscal 1999 decreased 2.0%, or $200,000, from $11.0 million in fiscal 1998, to $10.8 million. The additional gross margin realized from the Group's increased sales was offset by higher selling, general and administrative expenses and product development costs primarily in the telemetry products area as the Group positioned Telemetry for additional growth.

## Quantitative and Qualitative Disclosures About Market Risk

SBS' liquid investment is cash invested either in money market accounts or in overnight repurchase agreements. Due to the nature of these investments, SBS believes that the market risk related to these investments is minimal. SBS' revolving credit facility provides for interest on borrowings based on the prime rate or LIBOR in accordance with the LIBOR margin defined in the Agreement. As a result, increases or decreases in these rates will have the effect of reducing or increasing net income during the period these notes remain outstanding. Although SBS' notes payable at June 30, 2000 under the credit facility are due upon expiration of the facility on March 31, 2001, management currently believes that a portion of or all of these borrowings may be refinanced at prevailing market rates, and as such, the refinanced notes will continue to carry a degree of interest rate risk.

SBS, as a result of its German operating and financing activities, is exposed to market risk from changes in foreign currency exchange rates. To date, SBS has not entered into any foreign exchange forward contracts to reduce its exposure to changes in foreign currency exchange rates.

The Board of Directors
SBS Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of SBS Technologies, Inc. and subsidiaries as of June 30, 2000 and 1999, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended June 30, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SBS Technologies, Inc. and subsidiaries as of June 30, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2000 in conformity with accounting principles generally accepted in the United States of America.

Albuquerque, New Mexico
August 11, 2000, except as to note 16,
which is as of August 18, 2000

# SBS Technologies, Inc. and Subsidiaries
## Consolidated Balance Sheets

| | June 30, 2000 | June 30, 1999 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,595,078 | 3,500,556 |
| Receivables, net (note 3) | 29,164,257 | 21,442,108 |
| Inventories (note 4) | 30,492,779 | 15,755,379 |
| Deferred income taxes (note 8) | 5,185,853 | 2,179,143 |
| Income tax receivable | 1,022,215 | 31,728 |
| Prepaid expenses | 856,399 | 632,798 |
| Other current assets | 431,776 | 322,511 |
| Total current assets | 70,748,357 | 43,864,223 |
| Property and equipment, net (note 5) | 7,320,222 | 7,321,717 |
| Intangible assets, net (note 6) | 54,961,154 | 36,228,105 |
| Deferred income taxes (note 8) | — | 4,488,059 |
| Other assets | 130,524 | 105,751 |
| Total assets | $ 133,160,257 | 92,007,855 |
| **LIABILITIES and STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Notes payable (note 7) | $ 20,000,000 | 3,900,000 |
| Notes payable to related parties (note 7) | — | 1,391,216 |
| Accounts payable | 5,556,479 | 3,319,664 |
| Accrued representative commissions | 652,397 | 529,765 |
| Accrued salaries | 3,171,690 | 2,632,993 |
| Accrued compensated absences | 1,229,307 | 1,201,653 |
| Other current liabilities | 2,603,812 | 1,804,591 |
| Total current liabilities | 33,213,685 | 14,779,882 |
| Deferred income taxes (note 8) | 932,809 | — |
| Total liabilities | 34,146,494 | 14,779,882 |
| Stockholders' equity: | | |
| Common stock, no par value; 200,000,000 shares authorized, 13,302,144 and 11,674,966 issued and outstanding at June 30, 2000 and 1999, respectively (note 16) | 65,384,516 | 50,554,450 |
| Common stock warrants (note 11) | — | 38,425 |
| Accumulated other comprehensive loss | (3,967,584) | (2,059,126) |
| Retained earnings | 37,596,831 | 28,694,224 |
| Total stockholders' equity | 99,013,763 | 77,227,973 |
| Total liabilities and stockholders' equity | $ 133,160,257 | 92,007,855 |

See accompanying notes to consolidated financial statements

## Consolidated Statements of Operations

| | Year Ended June 30 2000 | 1999 | 1998 |
|---|---|---|---|
| Sales | $ 128,188,773 | 105,999,233 | 74,213,901 |
| Cost of sales | 61,173,851 | 44,480,959 | 31,793,078 |
| Gross Profit | 67,014,922 | 61,518,274 | 42,420,823 |
| Selling, general and administrative expense | 26,322,134 | 23,983,186 | 16,891,907 |
| Research and development expense | 15,946,882 | 14,350,995 | 7,983,570 |
| Acquired in-process research and development charge | 4,000,000 | 527,514 | — |
| Amortization of intangible assets | 5,009,818 | 3,980,036 | 1,937,353 |
| Operating Income | 15,736,088 | 18,676,543 | 15,607,993 |
| Interest income | 449,150 | 298,372 | 1,120,871 |
| Interest expense | (450,962) | (287,576) | (187,676) |
| Foreign exchange gains (losses) | (143,597) | 666,754 | — |
| | (145,409) | 677,550 | 933,195 |
| Income before income taxes and minority interest | 15,590,679 | 19,354,093 | 16,541,188 |
| Income taxes (note 8) | 6,688,072 | 6,631,322 | 6,451,000 |
| Income before minority interest | 8,902,607 | 12,722,771 | 10,090,188 |
| Minority interest | — | 444,383 | — |
| Net income | $ 8,902,607 | 12,278,388 | 10,090,188 |
| Net income per common share | $ 0.71 | 1.05 | 0.90 |
| Net income per common share – assuming dilution | $ 0.66 | 1.00 | 0.82 |

See accompanying notes to consolidated financial statements

# SBS Technologies, Inc. and Subsidiaries
## Consolidated Statements of Changes in Stockholders' Equity

| | Common stock Shares | Common stock Amount | Common stock warrants |
|---|---|---|---|
| **Balance at June 30, 1997 (as previously reported)** | 5,405,378 | $ 43,889,754 | $ 111,286 |
| 2-for-1 stock split declared August 18, 2000 (note 16) | 5,405,378 | — | — |
| Exercise of stock options and warrants | 545,644 | 2,032,675 | (41,168) |
| Income tax benefit from stock options exercised | — | 1,855,604 | — |
| Comprehensive income: | | | |
| Net income | — | — | — |
| Total comprehensive income | | | |
| **Balance at June 30, 1998** | 11,356,400 | 47,778,033 | 70,118 |
| Exercise of stock options and warrants | 283,166 | 1,182,967 | (31,693) |
| Stock issued to directors under restricted stock awards | 7,400 | 74,000 | — |
| Stock issued for business acquisition | 48,000 | 713,878 | — |
| Stock repurchased and retired | (20,000) | (181,928) | — |
| Income tax benefit from stock options exercised | — | 987,500 | — |
| Comprehensive income: | | | |
| Net income | — | — | — |
| Other comprehensive loss: Foreign currency translation adjustment | — | — | — |
| Total comprehensive income | | | |
| **Balance at June 30, 1999** | 11,674,966 | 50,554,450 | 38,425 |
| Exercise of stock options and warrants | 1,264,010 | 9,348,679 | (38,425) |
| Stock-based compensation | — | 28,124 | — |
| Stock issued to directors under restricted stock awards | 13,442 | 83,000 | — |
| Acquisition of SciTech | 349,726 | 241,879 | — |
| Dividends paid to former shareholders of SciTech | — | — | — |
| Fair value of SBS options issued in exchange for unvested SDL options | — | 1,231,739 | — |
| Income tax benefit from stock options exercised | — | 3,896,645 | — |
| Comprehensive income: | | | |
| Net income | — | — | — |
| Other comprehensive loss: Foreign currency translation adjustment | — | — | — |
| Total comprehensive income | | | |
| **Balance at June 30, 2000** | 13,302,144 | $ 65,384,516 | $ — |

See accompanying notes to consolidated financial statements

| Retained earnings | Comprehensive income | Accumulated other comprehensive loss | Total stockholders' equity |
|---|---|---|---|
| $ 6,325,648 | | $ — | $ 50,326,688 |
| — | | — | — |
| — | $ — | — | 1,991,507 |
| — | — | — | 1,855,604 |
| 10,090,188 | 10,090,188 | — | 10,090,188 |
| | 10,090,188 | | |
| 16,415,836 | | — | 64,263,987 |
| — | — | — | 1,151,274 |
| — | — | — | 74,000 |
| — | — | — | 713,878 |
| — | — | — | (181,928) |
| — | — | — | 987,500 |
| 12,278,388 | 12,278,388 | — | 12,278,388 |
| — | (2,059,126) | (2,059,126) | (2,059,126) |
| | 10,219,262 | | |
| 28,694,224 | | (2,059,126) | 77,227,973 |
| — | — | — | 9,310,254 |
| — | — | — | 28,124 |
| — | — | — | 83,000 |
| 400,913 | — | — | 642,792 |
| (400,913) | — | — | (400,913) |
| — | — | — | 1,231,739 |
| — | — | — | 3,896,645 |
| 8,902,607 | 8,902,607 | — | 8,902,607 |
| — | (1,908,458) | (1,908,458) | (1,908,458) |
| | $ 6,994,149 | | |
| $ 37,596,831 | | $ (3,967,584) | $ 99,013,763 |

# SBS Technologies, Inc. and Subsidiaries
## Consolidated Statements of Cash Flows

| | Year Ended June 30 2000 | 1999 | 1998 |
|---|---|---|---|
| **Cash flows from operating activities:** | | | |
| Net income | $ 8,902,607 | 12,278,388 | 10,090,188 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 1,980,845 | 1,658,272 | 960,943 |
| Amortization of intangible assets | 5,009,818 | 3,980,036 | 1,937,353 |
| Bad debt expense | 318,721 | 210,522 | 136,078 |
| Deferred income taxes | (2,505,227) | (973,612) | (250,000) |
| Income tax benefit of stock options exercised | 3,896,645 | 987,500 | 1,855,604 |
| Loss on disposition of assets | 103,438 | 32,459 | 7,802 |
| Foreign exchange losses (gains) | 143,597 | (666,754) | — |
| Stock-based compensation | 28,124 | — | — |
| Stock issued to directors under restricted stock awards | 83,000 | 74,000 | — |
| Imputed interest | — | — | 183,749 |
| Acquired in-process research and development charge | 4,000,000 | 527,514 | — |
| Minority interest | — | 444,383 | — |
| Changes in assets and liabilities: | | | |
| Receivables | (6,830,705) | (3,079,001) | (3,066,609) |
| Inventories | (12,571,896) | (1,831,945) | (2,480,430) |
| Prepaids and other assets | (308,828) | (350,462) | (262,465) |
| Accounts payable | 1,025,611 | 308,474 | 343,790 |
| Accrued representative commissions | 122,632 | 293,537 | (253,711) |
| Accrued salaries | 80,209 | (1,131,302) | 53,870 |
| Accrued compensated absences | (20,986) | 386,524 | 173,912 |
| Income taxes | 366,449 | (2,858,114) | (247,290) |
| Other current liabilities | 1,032,633 | 6,230 | (460,937) |
| Net adjustments | (4,045,920) | (1,981,739) | (1,368,341) |
| Net cash provided by operating activities | 4,856,687 | 10,296,649 | 8,721,847 |
| **Cash flows from investing activities:** | | | |
| Cash received from sale of assets | — | 4,905 | 54,200 |
| Cash received from sale of marketable securities | 248,299 | — | — |
| Business acquisitions, net of cash acquired (note 2) | (24,681,862) | (25,276,144) | (5,565,603) |
| Purchase of license agreement | (2,000,000) | — | — |
| Acquisition of property and equipment | (1,909,973) | (4,019,741) | (2,975,552) |
| Net cash used in investing activities | (28,343,536) | (29,290,980) | (8,486,955) |

(continued)

| | Year Ended June 30 2000 | 1999 | 1998 |
|---|---|---|---|
| **Cash flows from financing activities:** | | | |
| Payments on notes payable to related parties | (1,391,216) | (1,607,467) | — |
| Proceeds from notes payable to bank | 20,000,000 | 7,900,000 | — |
| Payments on notes payable to bank | (3,975,060) | (4,000,000) | — |
| Dividends paid to former shareholders of SciTech | (400,913) | — | — |
| Payments on long-term borrowings and capital leases | — | (3,000,000) | (1,013,316) |
| Repurchase of common stock | — | (181,928) | — |
| Proceeds from exercise of stock options and warrants | 9,310,254 | 1,151,274 | 1,991,507 |
| Net cash provided by financing activities | 23,543,065 | 261,879 | 978,191 |
| Effect of exchange rate changes on cash | 38,306 | (641,746) | — |
| Net increase (decrease) in cash and cash equivalents | 94,522 | (19,374,198) | 1,213,083 |
| Cash and cash equivalents at beginning of period | 3,500,556 | 22,874,754 | 21,661,671 |
| Cash and cash equivalents at end of period | $ 3,595,078 | 3,500,556 | 22,874,754 |
| **Supplemental disclosure of cash flow information:** | | | |
| Interest paid | $ 99,453 | 273,867 | 3,916 |
| Income taxes paid | 5,057,016 | 9,375,575 | 5,092,687 |
| Noncash financing and investing activities: | | | |
| Stock options issued in connection with the acquisition of SDL | 1,231,739 | — | — |
| Stock issued for acquisition | — | 713,878 | — |
| Summary of assets and equity acquired, and liabilities assumed through acquisitions: | | | |
| Cash and cash equivalents | 1,479,037 | 586,918 | 239,021 |
| Marketable securities | 248,299 | — | — |
| Receivables | 1,799,315 | 5,314,703 | 943,917 |
| Inventories | 2,431,739 | 3,378,652 | 475,311 |
| Prepaid expenses | 81,868 | 102,512 | 21,111 |
| Goodwill and identifiable intangible assets | 26,108,134 | 24,243,221 | 4,532,254 |
| Property and equipment | 270,931 | 556,258 | 25,817 |
| Accumulated depreciation | (66,481) | — | — |
| Notes payable to related parties | — | (2,865,603) | — |
| Accounts payable | (1,405,169) | (851,903) | (176,737) |
| Accrued representative commissions | — | — | (40,240) |
| Accrued salaries | (463,551) | (1,753,948) | (73,938) |
| Accrued compensated absences | (62,124) | (82,225) | (9,971) |
| Debt | (75,060) | — | — |
| Deferred income taxes | (5,024,324) | (105,638) | — |
| Income taxes | 1,481,077 | (1,888,522) | (54,037) |
| Other current liabilities | — | (771,363) | (77,884) |
| Common stock | (241,879) | — | — |
| Retained earnings | (400,913) | — | — |

See accompanying notes to consolidated financial statements

## (1) Summary of Significant Accounting Policies

### (a) General

The consolidated financial statements include the accounts of SBS Technologies, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

SBS is a leading designer and manufacturer of open-architecture, standard bus embedded computer components that system designers can easily utilize to create a custom solution specific to the user's unique application. SBS' product lines include CPU (Pentium® and PowerPC™) boards, I/O modules, avionics modules and analyzers, computer connectivity products, expansion units, real-time networks, telemetry boards, DIN-rail embedded PCs and industrial-grade computers. SBS has operations in New Mexico, Minnesota, North Carolina, California, Wisconsin, Massachusetts and Germany.

See note 16 for a discussion of the two-for-one stock split declared on August 18, 2000 and applied retroactively in these consolidated financial statements.

### (b) Sales Recognition

Sales are recognized when goods are shipped to the customer, except for goods delivered pursuant to a consignment agreement. Revenue is not recognized on consigned goods until title and the risks and rewards of ownership have passed to the consignee.

Effective July 1, 1998, SBS adopted Statement of Position ("SOP") 97-2, "Software Revenue Recognition," which supersedes SOP 91-1. SOP 97-2 provides additional guidance on when revenue should be recognized and in what amounts, for licensing, selling, leasing or otherwise marketing computer software. Adoption of SOP 97-2 did not have a material impact on SBS' sales recognition policies or the financial statements.

### (c) Cash and Cash Equivalents

Temporary investments with original maturities of ninety days or less are classified as cash and cash equivalents. Substantially all cash is held at one financial institution.

### (d) Inventories

Inventories are valued at standard cost, which approximates weighted average cost and does not exceed market.

### (e) Property and Equipment

Property and equipment are carried at cost. Depreciation of property and equipment is provided over the estimated useful lives (one to twelve years) of the respective assets using straight-line and accelerated methods.

### (f) Intangible Assets

Intangible assets include goodwill, noncompete covenants, core-developed technology, assembled work force, customer lists and license agreements. Purchase price consideration relating to SBS' acquisitions has been allocated based on assessments by SBS in conjunction with independent valuation firms. Amortization of intangibles is being recognized using the straight-line method based upon the estimated economic useful lives of the assets (four to ten years). SBS periodically evaluates the carrying amounts of enterprise level goodwill, as well as the related amortization periods, to determine whether adjustments to these amounts or useful lives are required. The evaluation is based on the projection of undiscounted future operating cash flows of the acquired operations over the remaining useful life of the related goodwill. To the extent such projections indicate that future undiscounted cash flows are not sufficient to recover the carrying amounts of goodwill, a charge to expense is recognized so that the remaining carrying amount is equal to future undiscounted cash flows.

### (g) Income Taxes

SBS accounts for income taxes under the asset and liability method. Deferred income taxes are recognized for the tax consequences of differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities by applying enacted statutory tax rates applicable to future years. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the change.

### (h) Financial Instruments

SFAS 107, "Disclosures about Fair Values of Financial Instruments," requires the fair value of financial instruments be disclosed. SBS' financial instruments are cash and cash equivalents, accounts receivable, accounts payable and notes payable. The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and notes payable, because of their nature, approximate fair value.

### (i) Reclassifications

Certain amounts in the 1999 and 1998 financial statements have been reclassified to conform to the 2000 presentation.

### (j) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### (k) Stock Option Plans

SBS accounts for its stock option plans in accordance with the provisions of SFAS 123, "Accounting for Stock-Based Compensation." SFAS 123 allows entities to continue to apply the provisions of APB Opinion 25 and provide pro forma net income and pro forma earnings per share disclosures for employee stock option grants made in fiscal 1996 and future years as if the fair-value-based method defined in SFAS 123 had been applied. SBS has elected to continue to apply the provisions of APB Opinion 25 and provide the pro forma disclosure provisions of SFAS 123.

### (l) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

SBS reviews its long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows (undiscounted and without interest charges) expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

### (m) Comprehensive Income

SFAS 130, "Reporting Comprehensive Income," establishes standards for the reporting and presentation of changes in equity from non-owner sources in the financial statements. Non-owner changes in stockholders' equity consists of net income and foreign currency translation adjustments and, as permitted under the provisions of SFAS 130, are presented in the Consolidated Statements of Changes in Stockholders' Equity. SFAS 130 does not affect SBS' financial position or results of operations.

### (n) Currency Translation

For operations outside of the United States that prepare financial statements in functional currencies other than the U.S. dollar, SBS translates the statement of operations amounts at average exchange rates for the year and translates assets and liabilities at year-end exchange rates. The translation adjustments are presented as a component of accumulated other comprehensive loss within stockholders' equity. Foreign currency transaction gains and losses are recognized in the statement of operations based on changes in the exchange rates for transactions and balances denominated in non-functional currencies.

## (2) Business Acquisitions

On April 12, 2000, SBS completed the acquisition of SDL. Before the acquisition, SDL was a privately held company. Located in Mansfield, Massachusetts, SDL specializes in the design, manufacture and sale of WAN I/O for the telecommunications and data communications markets. SDL designs, manufactures and markets T1/EI, T3/E3, HSSI and OC3 products based on the PCI, CompactPCI, and PMC form factors, and supporting protocols such as Frame Relay, HDLC, PPP, X.25 and

ATM. In addition, SDL's products support the operating systems most commonly used in communications, including Windows NT, Solaris and VxWorks. SBS acquired all of the outstanding stock of SDL for $25.6 million in cash. Of the $25.6 million, $24.8 million was paid to the sellers at closing, and $0.8 million was paid to the sellers on June 27, 2000, upon finalizing the closing balance sheet. Acquisition costs associated with the purchase were $0.6 million. The purchase price also includes $1.2 million for the fair value of SBS options issued in exchange for unvested SDL options. The acquisition was funded with existing cash and a $20.0 million borrowing under SBS' Credit Agreement with Bank of America, N.A. The acquisition was accounted for under the purchase method, whereby the purchase price was allocated to the underlying assets and liabilities based upon their estimated fair values. Identifiable intangibles are being amortized over four to eight years and goodwill is being amortized over ten years. In connection with the acquisition, SBS recorded a $4.0 million earnings charge, based on an assessment by SBS, in conjunction with an independent valuation firm, of purchased technology of SDL. The assessment determined that $4.0 million of SDL's purchase price represented technology that did not meet the accounting definitions of "completed technology," and thus should be charged to earnings under generally accepted accounting principles. The assessment analyzed certain products that were in various stages of completion ranging from 35% of completion to 85% of completion, with estimated completion dates ranging from the third quarter of calendar 2000 to the second quarter of calendar 2001. The fair value of the purchased technology was determined in accordance with the views expressed by the staff of the Securities and Exchange Commission. The financial results of SDL have been included in SBS' Consolidated Financial Statements from April 12, 2000.

On December 20, 1999, SBS acquired SciTech, a Madison, Wisconsin based designer and manufacturer of communications network I/O products based on PMC and PCI form factors. The acquisition qualified as a pooling of interests for accounting purposes and constituted a tax free reorganization for federal income tax purposes. Under the terms of the agreement, SciTech's shareholders exchanged all outstanding shares of SciTech stock for 349,726 shares of SBS' stock. SciTech was subsequently merged into Communications Products. SciTech's historical results do not have a material effect on combined financial position or results of operations, and as such, the financial position and results of operations of SBS and SciTech are combined from October 1, 1999 on a prospective basis.

On August 12, 1998, SBS completed the purchase of Communications Products. Based in Carlsbad, California, Communications Products designs, manufactures and markets CPU boards based on the PowerPC™ processor for computer applications that utilize VME, CompactPCI, PMC and standalone bus standards. SBS acquired all of the outstanding capital stock of Communications Products for a total purchase price of $5.3 million. Of the $5.3 million, $5.0 million was paid in cash to the sellers at closing, and $0.2 million was paid in cash to the sellers on October 13, 1998, upon finalizing the closing balance sheet. The remainder represents acquisition costs associated with the purchase. The acquisition was accounted for using the purchase method of accounting and goodwill is being amortized over a ten year period. The financial results of Communications Products have been included in SBS' Consolidated Financial Statements from August 12, 1998.

On July 1, 1998, SBS acquired through its newly formed subsidiary, SBS Technologies Holding GmbH, a 50.1% interest in **or**. Based in Augsburg, Germany, **or** designs, manufactures and markets CPU boards utilized in a wide range of embedded computer applications. As part of the acquisition, SBS acquired, through its newly formed subsidiary, SBS Technologies Holding GmbH, a 50.2% interest in **ortec**, a Mindelheim, Germany based related company which manufactures **or**'s commercial products and electronic products for other customers. SBS also acquired, through its wholly-owned subsidiary, Embedded Computers, based in Raleigh, North Carolina, a 100% interest in **or** Computers, Inc., based in Fairfax, Virginia, which was the U.S. marketing support organization for the **or** product line. The purchase price, excluding transaction costs, for the majority interest in the two companies based in Germany and 100% of **or** Computers, Inc. was DM 17.5 million, approximately $9.7 million, paid in cash and 48,000 shares of common stock valued at $0.7 million at closing. In addition, SBS and the shareholders of both **or** and **ortec** entered into exclusive option agreements whereby SBS could acquire the remaining shares of both companies on February 28, 1999. In December 1998, SBS

modified the option agreements, accelerating the purchase of the remaining interest in **or** and **ortec** from February 28, 1999 to December 9, 1998. The purchase price, excluding transaction costs, for the remaining interests in the two companies based in Germany was DM 18.2 million. SBS disbursed the cash, approximately $10.4 million, including interest at 4%, during the quarter ended March 31, 1999. Acquisition costs associated with both purchases were approximately $1.1 million. The acquisitions were accounted for using the purchase method of accounting, and goodwill is being amortized over a ten year period. In connection with the initial acquisition SBS recorded a $0.5 million earnings charge, based on an assessment by SBS, in conjunction with an independent valuation firm, of purchased technology of **or**. The assessment determined that $0.5 million of **or**'s purchase price represented technology that did not meet the accounting definitions of "completed technology," and thus should be charged to earnings under generally accepted accounting principles. This assessment analyzed certain VME, CompactPCI and PC Compact products that were under development at the time of acquisition. These programs were in various stages of completion ranging from initial development to 90% of completion, with estimated completion dates ranging from September 1998 through April 1999. The fair value of these development programs was determined in accordance with views expressed by the staff of the Securities and Exchange Commission. In conjunction with the acquisition of the remaining interest of **or** completed on December 9, 1998, all projects in process at the date of the initial acquisition had been substantially completed so that no additional in-process research and development was acquired. The financial results of **or**, **ortec** and **or** Computers, Inc. have been included in SBS' Consolidated Financial Statements from July 1, 1998.

On November 24, 1997, SBS completed the purchase of Industrial Computers, a privately held San Diego County, California based manufacturer specializing in the design and manufacture of rugged, special-purpose PC, and CompactPCI industrial and telecommunications platforms, enclosures and turnkey systems and offering a variety of Intel and PowerPC™ CPU boards and system enclosures, including rackmount, benchtop, workstation and portable systems. SBS acquired all of the outstanding capital stock of Industrial Computers for a total purchase price of $5.8 million. The acquisition was accounted for using the purchase method of accounting and goodwill is being amortized over a ten year period. The financial results of Industrial Computers have been included in SBS' Consolidated Financial Statements from November 24, 1997.

The following unaudited pro forma consolidated results of operations have been prepared as if the acquisitions of SDL, Communications Products and the minority interest in **or** and **ortec** had occurred at the beginning of each year presented to the extent not included in historical results.

(in thousands except per share amounts)

| | June 30 2000 | June 30 1999 |
|---|---|---|
| Sales | $ 139,536 | 117,497 |
| Net income | 10,745 | 7,910 |
| Net income per common share | 0.86 | 0.68 |
| Net income per common share – assuming dilution | 0.79 | 0.64 |

The pro forma information is presented for informational purposes only and is not necessarily indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of such dates, nor is it intended to be a projection of future results. For the years ended June 30, 2000 and 1999, non-recurring acquired in-process research and development charges directly attributable to the acquisition of SDL on April 12, 2000 of $4.0 million and $0.5 million related to the majority interest in **or** on July 1, 1998 were not included in the unaudited pro forma consolidated results of operations.

## (3) Receivables

Receivables, net consisted of the following:

| | June 30 2000 | June 30 1999 |
|---|---|---|
| Accounts receivable | $ 29,993,290 | 22,205,155 |
| Less allowance for doubtful accounts | (829,033) | (763,047) |
| | $ 29,164,257 | 21,442,108 |

## (4) Inventories

Inventories consisted of the following:

| | June 30 2000 | June 30 1999 |
|---|---|---|
| Raw materials | $ 15,010,729 | 7,598,642 |
| Work in process | 8,902,019 | 4,150,779 |
| Finished goods | 5,379,699 | 4,005,958 |
| Inventory consigned to others | 1,200,332 | — |
| | $ 30,492,779 | 15,755,379 |

## (5) Property and Equipment

Property and equipment, net consisted of the following:

| | June 30 2000 | June 30 1999 |
|---|---|---|
| Computers | $ 3,855,413 | 3,252,977 |
| Software | 2,232,509 | 1,826,394 |
| Furniture and equipment | 3,928,372 | 3,255,039 |
| Leasehold improvements | 2,554,981 | 2,430,838 |
| | 12,571,275 | 10,765,248 |
| Less accumulated depreciation | (5,251,053) | (3,443,531) |
| | $ 7,320,222 | 7,321,717 |

## (6) Intangible Assets

Intangible assets, net consisted of the following:

| | | June 30 2000 | June 30 1999 | Estimated Useful Life |
|---|---|---|---|---|
| Goodwill | $ | 48,505,074 | 44,055,185 | 5 - 10 years |
| Core-developed technology | | 14,800,000 | — | 7 years |
| License agreement | | 2,000,000 | — | 5 years |
| Other | | 2,517,841 | 227,894 | 3 - 8 years |
| | | 67,822,915 | 44,283,079 | |
| Less accumulated amortization | | (12,861,761) | (8,054,974) | |
| | $ | 54,961,154 | 36,228,105 | |

## (7) Notes Payable and Line of Credit

Notes payable and line of credit consisted of the following:

| | June 30 2000 | June 30 1999 |
|---|---|---|
| Revolving credit facility notes | $ 20,000,000 | 3,900,000 |
| Related party notes payable to former shareholders of **or**, including interest at 7.50% through June 30, 1999, due no earlier than December 31, 1999, unless agreed to by both parties | $ — | 1,391,216 |

On December 1, 1998, SBS entered into a $15.0 million credit agreement. The agreement expired on November 30, 1999, but was modified to extend the expiration date to January 31, 2000. Effective January 31, 2000, the agreement was renewed and modified, allowing for $25.0 million of borrowings with an expiration date of November 30, 2001. Effective March 31, 2000, the agreement was modified, allowing for $30.0 million of borrowings with an expiration date of March 31, 2001. The revolving credit facility provides, at SBS' option, interest at the prime rate or LIBOR in accordance with the LIBOR margin. Using the LIBOR, if SBS' Senior Funded Debt to EBITDA ratio is less than .50, the interest rate is LIBOR plus 1.50%. If SBS' Senior Funded Debt to EBITDA ratio is greater than or equal to .50 but less than or equal to 1.25, the interest rate is LIBOR plus 1.75%. The facility calls for a commitment fee, payable quarterly, of 0.20% times the average daily unused portion of the $30,000,000 commitment. As of June 30, 2000, the total outstanding amount under this facility was $20,000,000, bearing interest at a fixed rate of 8.16% until September 13, 2000, at which time the obligation matures under the existing LIBOR interest rate period. All outstanding borrowings are due upon expiration of the agreement. SBS is required, under this agreement, to maintain certain financial ratios. At June 30, 2000, SBS was in compliance with all of the covenants of the agreement. The facility is secured by accounts receivable and inventory and is guaranteed by each of SBS' U.S. subsidiaries.

## (8) Income Taxes

Income before income taxes is comprised of the following:

| | | Year ended June 30 | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| U.S. | $ 15,643,273 | 18,865,677 | 16,541,188 |
| Foreign | (52,594) | 488,416 | — |
| | $ 15,590,679 | 19,354,093 | 16,541,188 |

Income tax expense is comprised of the following:

| | | Year ended June 30 | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Current: | | | |
| U.S. Federal | $ 6,915,149 | 5,344,920 | 5,447,200 |
| State | 1,401,905 | 1,173,277 | 1,253,800 |
| Foreign | 824,272 | 1,055,965 | — |
| Deferred: | | | |
| U.S. Federal | (1,716,589) | (408,240) | (202,500) |
| State | (290,477) | (77,760) | (47,500) |
| Foreign | (446,188) | (456,840) | — |
| | $ 6,688,072 | 6,631,322 | 6,451,000 |

Income tax expense was provided for at an effective rate of 42.9, 34.3 and 39.0 percent in 2000, 1999 and 1998, respectively. The actual tax expense differs from the "expected" tax expense (computed by applying the statutory U.S. Federal tax rate to income before income taxes) as follows:

| | | Year ended June 30 | |
|---|---|---|---|
| | 2000 | 1999 | 1998 |
| Computed "expected" tax expense | $ 5,456,738 | 6,773,933 | 5,735,651 |
| State income tax, net of federal income tax benefit | 722,428 | 712,086 | 933,631 |
| Non-deductible IPR&D | 1,400,000 | — | — |
| Non-deductible goodwill and interest | 504,215 | 395,000 | — |
| Non-taxable interest income | (411,852) | — | — |
| Non-taxable S-Corp. income from SciTech | (117,788) | — | — |
| Foreign rate differential | (52,208) | 33,180 | — |
| Dividend from foreign sales corporation | (350,000) | (192,500) | (102,000) |
| Research and experimental tax credits | (420,000) | (1,095,000) | (250,000) |
| Other | (43,461) | 4,623 | 133,718 |
| | $ 6,688,072 | 6,631,322 | 6,451,000 |

The significant components of deferred income tax assets and liabilities are as follows:

| | June 30 2000 | 1999 |
|---|---|---|
| Deferred tax assets: | | |
| Vacation and severance accruals | $ 402,000 | 406,000 |
| Inventory capitalization | 2,776,500 | 844,850 |
| Acquired IPR&D charge | 3,375,636 | 3,697,500 |
| Accrued expenses | 219,000 | 190,460 |
| Amortization | 1,496,300 | 933,500 |
| Allowance for uncollectible accounts | 256,200 | 150,900 |
| Foreign tax credits | 977,209 | 599,125 |
| Unbilled receivables | 476,500 | — |
| Fair value of unvested stock options | 373,156 | — |
| Net operating loss carryforward | 1,065,309 | — |
| Other | 749,490 | 443,992 |
| | 12,167,300 | 7,266,327 |
| Valuation allowance for deferred tax assets | (1,433,147) | (599,125) |
| Total deferred tax assets | 10,734,153 | 6,667,202 |
| Deferred tax liabilities: | | |
| Identifiable intangible assets | (6,481,109) | — |
| Net deferred tax assets | $ 4,253,044 | 6,667,202 |

As of June 30, 2000, SBS had a foreign tax credit carryforward of approximately $1.0 million. Additionally, SBS had a net operating loss carryforward of approximately $1.1 million, as a result of the acquisition of SDL. Excess foreign tax credits may be carried back two years and forward five years. The net operating loss can be carried forward up to twenty years and is limited by Internal Revenue Code Section 382. In accordance with the provisions of Internal Revenue Code Section 382, utilization of SBS' net operating loss carryforward is estimated to be limited to approximately $0.6 million per year. Due to the uncertainty of the realization of the foreign tax credit carryforward and certain tax attributes of SDL, SBS has established a valuation allowance of approximately $1.4 million as of June 30, 2000. To the extent that $0.5 million of this valuation allowance related to SDL tax attributes is reduced in future periods, the benefit will be recognized as a reduction of goodwill. In assessing the realizability of the remaining deferred tax assets, management considered projected future taxable income and tax planning strategies. Based on SBS' historical taxable transactions, the timing of the reversal of existing temporary differences and the evaluation of tax planning strategies, management believes it is more likely than not that SBS' future taxable income will be sufficient to realize the benefit of the remaining deferred tax assets existing at June 30, 2000.

## (9) Earnings Per Share

Net income per common share is based on weighted average shares outstanding. Net income per common share – assuming dilution includes the dilutive effects of potential common shares outstanding during the period. A reconciliation of the numerator and denominator of the per share and per share – assuming dilution calculation follows:

| Year ended June 30, 2000 | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
|---|---|---|---|
| **Net income per common share** | | | |
| Net income | $ 8,902,607 | 12,463,056 | $ 0.71 |
| **Effect of dilutive securities** | | | |
| Dilutive options | — | 1,126,840 | |
| **Net income per common share – assuming dilution** | | | |
| Net income | $ 8,902,607 | 13,589,896 | $ 0.66 |

| Year ended June 30, 1999 | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
|---|---|---|---|
| **Net income per common share** | | | |
| Net income | $ 12,278,388 | 11,655,052 | $ 1.05 |
| **Effect of dilutive securities** | | | |
| Dilutive options and warrants | — | 681,184 | |
| **Net income per common share – assuming dilution** | | | |
| Net income | $ 12,278,388 | 12,336,236 | $ 1.00 |

| Year ended June 30, 1998 | Income (Numerator) | Shares (Denominator) | Per-Share Amount |
|---|---|---|---|
| **Net income per common share** | | | |
| Net income | $ 10,090,188 | 11,166,858 | $ 0.90 |
| **Effect of dilutive securities** | | | |
| Dilutive options and warrants | — | 1,160,024 | |
| **Net income per common share – assuming dilution** | | | |
| Net income | $ 10,090,188 | 12,326,882 | $ 0.82 |

For the years ended June 30, 2000, 1999 and 1998, options to purchase 350,008, 1,890,098 and 776,534 shares of common stock, respectively, were outstanding but were not included in the computation of net income per common share – assuming dilution, because the options' exercise price was greater than the average market price of the underlying common shares.

## (10) Leases

SBS leases its main facilities in Albuquerque, New Mexico, Carlsbad, California, Newark, California, St. Paul, Minnesota, Raleigh, North Carolina, Madison, Wisconsin, Mansfield, Massachusetts, Augsburg, Germany, and Mindelheim, Germany under noncancelable operating leases which expire at various dates through fiscal 2006. SBS also leases various items of equipment under noncancelable operating leases which expire at various dates through fiscal 2006.

The following is a five-year schedule of future minimum lease payments:

| Year ending June 30 | | Buildings minimum lease payments | Equipment minimum lease payments | Total |
|---|---|---|---|---|
| 2001 | $ | 2,445,856 | 92,565 | 2,538,421 |
| 2002 | | 2,504,652 | 55,343 | 2,559,995 |
| 2003 | | 2,384,796 | 52,890 | 2,437,686 |
| 2004 | | 2,340,264 | 45,938 | 2,386,202 |
| 2005 | | 2,236,116 | 31,264 | 2,267,380 |
| | $ | 11,911,684 | 278,000 | 12,189,684 |

Total rental expense for operating leases for the years ended June 30, 2000, 1999 and 1998 was $2,519,193, $1,990,785 and $1,289,457, respectively.

## (11) Stock Option Plans and Warrants

### (a) 1992, 1993, 1995, 1996 and 1997 Incentive Stock Option Plans

SBS has 1992, 1993, 1995, 1996 and 1997 Incentive Stock Option Plans whereby a total of 2,800,000 shares of its common stock are reserved for discretionary grant of options by the Board to officers and employees. The plans all terminate ten years after inception, from the years 2001 to 2006. The options are intended to qualify as "incentive stock options" within the meaning of Section 422A of the Internal Revenue Code (the "Code"). The plans generally permit options to be granted (i) only to employees or officers and not to directors as such; (ii) for a period of up to ten years; and (iii) at prices not less than fair market value of the underlying common stock at the date of grant. Under the Code, holders of more than 10 percent of SBS' stock cannot be granted options with a duration of more than five years or exercisable at a price less than 110 percent of the fair market value of the underlying common stock on the date of grant. Options granted under the plans may be exercised as provided by the administering committee or Board of Directors of SBS. All of these options are exercisable at the quoted market value of SBS' common stock in effect on the respective dates of the grants.

### (b) 1993 Director and Officer Stock Option Plan

SBS has a 1993 Director and Officer Stock Option Plan whereby a total of 5% of the number of shares of its common stock outstanding at the first day of each fiscal year plus shares not awarded in prior years and underlying expired or terminated options are reserved for grant of options to all Directors of SBS who are not employees and all Executive Officers of SBS. Directors who are not employees of SBS receive automatic grants on the anniversary date of their service as a Director of SBS. Executive Officers receive grants at the discretion of the Board of Directors. All options are granted at a

price equal to fair market value of the underlying common stock on the date of grant. The Directors' options become exercisable one year from the date of grant and terminate twelve months from the date the optionee ceases to be a member of the Board of Directors or in five years, whichever occurs first.

### (c) 1996 Employee Stock Purchase Plan

The 1996 Employee Stock Purchase Plan was adopted by the Board of Directors on January 21, 1996 and was subsequently approved at the November 1996 Annual Shareholders' Meeting. The plan, as amended, provided for the grant of options to eligible employees on January 21, 1996 through January 21, 2003. In fiscal 1999, a subsequent amendment changed the grant date from January 21 to December 31 for grants made subsequent to January 21, 1999. Individual grants are issued for a percentage of the employee's annual base salary, as determined each year by the Board of Directors, up to 10%, divided by the fair market value of one share of SBS' common stock on the date of grant. Options are eligible to be exercised beginning 18 months after the date of grant for a period of nine months, at which time they will expire.

### (d) 1998 Long-Term Equity Incentive Plan

The 1998 Long-Term Equity Incentive Plan was adopted by the Board of Directors on September 15, 1997 and subsequently approved at the December 1997 reconvened Annual Shareholders' Meeting. All full-time employees of SBS and its subsidiaries and all non-employee Directors of SBS are eligible to participate in the plan, except that no person owning, directly or indirectly, more than 15% of the total combined voting power of all classes of stock shall be eligible to participate. The plan provides for the grant of any or all of the following types of awards: (i) stock options, including incentive stock options; (ii) stock appreciation rights; (iii) restricted stock; (iv) performance shares and units; and (v) other stock-based awards. The maximum number of shares of common stock that shall be available for grant of awards under the plan shall not exceed 3,000,000, subject to adjustment in accordance with the provisions of the plan. The exercise price of each option granted under (i) is determined by the Board of Directors but cannot be less than 100% of the fair market value of the underlying common stock on the date of grant. The exercise price of each option granted under (v) is determined by the Board of Directors and can be less than the fair market value of the underlying common stock on the date of grant. The term of these options cannot exceed ten years from grant date. The plan expires in January 2008.

### (e) Warrants

In connection with the acquisition of Modular I/O, warrants to purchase 800,000 shares of common stock at $2.25 were issued to the former shareholders and option holders of Modular I/O. All of these warrants were fully vested at June 30, 1996. At June 30, 2000, all of the warrants had been exercised or were forfeited under the net issuance method.

Information regarding SBS' stock option plans and warrants is summarized in the table below:

| | ALL ISOP's | 1993 D&O | 1996 ESPP | 1998 LT | Warrants | Total |
|---|---|---|---|---|---|---|
| **Outstanding at** | | | | | | |
| **6/30/97** | 1,594,668 | 614,000 | 117,710 | — | 445,142 | 2,771,520 |
| Granted | 210,000 | 74,000 | 87,592 | 566,000 | — | 937,592 |
| Exercised | 129,772 | 207,000 | 68,062 | — | 140,810 | 545,644 |
| Cancelled | 77,500 | 235,000 | 10,708 | — | 23,860 | 347,068 |
| **Outstanding at** | | | | | | |
| **6/30/98** | 1,597,396 | 246,000 | 126,532 | 566,000 | 280,472 | 2,816,400 |
| Granted | — | 100,000 | 158,034 | 1,248,942 | — | 1,506,976 |
| Exercised | 84,000 | 90,000 | — | — | 109,166 | 283,166 |
| Cancelled | — | — | 55,894 | 109,210 | 17,608 | 182,712 |
| **Outstanding at** | | | | | | |
| **6/30/99** | 1,513,396 | 256,000 | 228,672 | 1,705,732 | 153,698 | 3,857,498 |
| Granted | — | 59,926 | 106,372 | 1,546,926 | — | 1,713,224 |
| Exercised | 609,872 | 72,000 | 58,014 | 370,426 | 153,698 | 1,264,010 |
| Cancelled | 130,000 | — | 71,540 | 297,686 | — | 499,226 |
| **Outstanding at** | | | | | | |
| **6/30/00** | 773,524 | 243,926 | 205,490 | 2,584,546 | — | 3,807,486 |
| Exercisable at 6/30/98 | 492,394 | 155,000 | — | — | 280,472 | 927,866 |
| Exercisable at 6/30/99 | 840,060 | 206,000 | — | 208,330 | 153,698 | 1,408,088 |
| Exercisable at 6/30/00 | 421,854 | 184,000 | — | 413,316 | — | 1,019,170 |
| Available for grant at 6/30/00 | 145,218 | 862,374 | 268,438 | 24,178 | — | 1,300,208 |

Weighted average option exercise price information for fiscal years 2000, 1999 and 1998 follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Outstanding at July 1 | $ 10.07 | 9.06 | 6.77 |
| Granted during the year: | | | |
| Price = market value | 15.08 | 10.45 | 12.76 |
| Exchanged in SDL acquisition | 1.31 | — | — |
| Exercised during the year | 7.38 | 5.10 | 3.88 |
| Cancelled during the year | 11.40 | 11.95 | 8.91 |
| Outstanding at June 30 | 12.71 | 10.07 | 9.06 |
| Exercisable at June 30 | 10.78 | 7.94 | 4.95 |

Significant option groups outstanding and exercisable at June 30, 2000 and related weighted average price and life information follows:

| Range of Exercise Prices | Number Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number Exercisable | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $ 0.78 — $ 11.25 | 1,019,388 | 6.20 | $ 7.10 | 454,436 | $ 6.17 |
| $ 11.28 — $ 14.38 | 983,272 | 6.69 | $ 12.64 | 230,334 | $ 12.99 |
| $ 14.44 — $ 15.63 | 962,774 | 7.98 | $ 14.86 | 150,000 | $ 14.68 |
| $ 15.75 — $ 23.00 | 842,052 | 8.11 | $ 17.10 | 184,400 | $ 16.20 |
| $ 0.78 — $ 23.00 | 3,807,486 | 7.20 | $ 12.71 | 1,019,170 | $ 10.78 |

The per share weighted average fair value of stock options granted at a price equal to fair market value of the underlying common stock during 2000, 1999 and 1998 was $8.06, $5.10 and $5.95, respectively, on the date of grant. The per share weighted average fair value of stock options exchanged in the SDL acquisition, recognized as a part of the purchase price of SDL, was $13.28. The fair value of options at date of grant was estimated using the Black-Scholes Model with the following weighted average assumptions:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Expected life (years) | 3.47 | 2.90 | 3.14 |
| Risk free interest rate | 6.12% | 5.93% | 5.83% |
| Volatility | 70.09% | 69.25% | 62.59% |
| Dividend yield | — | — | — |

SBS applies APB Opinion 25 accounting for its plans. Had SBS determined compensation cost based on fair value at grant date for its stock options under SFAS 123, SBS' net income and EPS would have been reduced to the pro forma amounts indicated below:

| | | 2000 | 1999 | 1998 |
|---|---|---|---|---|
| Net income, as reported | $ | 8,902,607 | 12,278,388 | 10,090,188 |
| Net income, pro forma | | 3,473,193 | 6,139,834 | 6,333,362 |
| EPS, as reported (basic) | | 0.71 | 1.05 | 0.90 |
| EPS, pro forma (basic) | | 0.28 | 0.53 | 0.57 |
| EPS, as reported (diluted) | | 0.66 | 1.00 | 0.82 |
| EPS, pro forma (diluted) | | 0.28 | 0.53 | 0.55 |

Pro forma net income reflects only options granted since July 1, 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS 123 is not reflected in pro forma net income amounts presented above because compensation cost is reflected over the options' vesting periods and compensation cost for options granted prior to July 1, 1995 is not considered.

### (12) Retirement Plan

SBS maintains a retirement plan under Section 401(k) of the Code for all U.S. employees of SBS. The plan provides for employees to selectively defer a percentage of their wages, which SBS matches at a predetermined rate not to exceed 4 percent of the employee's wages. The plan also provides for additional contributions at the discretion of the Board of Directors. SBS contributions to the plan during the years ended June 30, 2000, 1999 and 1998 were $846,664, $778,566 and $582,488, respectively.

### (13) Segment Financial Data

SBS operates internationally through three operating segments: the Communications Group, the Computer Group and the Aerospace Group. The Communications Group was established this fiscal year and includes Communications Products and Industrial Computers (which were included in the Computer Group prior to this time) and SDL. The European Group which consisted of **or** and **ortec** has been merged into the Computer Group, as their business is closely related to the processor and I/O product businesses and is now under the same management. These segments are based on the markets that are served, the products that are provided to those markets, and have managers who report directly to the chief operating decision-maker. Reportable segments for all periods have been reclassified to conform to the new segment reporting structure. A description of these segments follows:

- The Communications Group designs, manufactures and markets products that support the operating systems most commonly used in communications applications. These products include CPU boards based on the PowerPC™ processor, WAN I/O and network I/O and systems and enclosures.
- The Computer Group develops, manufactures and markets SBS' processor boards, modular I/O boards and computer connectivity and expansion units. The principal customers of this group are OEM's which serve the industrial automation and control and military systems industries.
- The Aerospace Group develops, manufactures and markets avionics interfaces utilized for military aircraft and satellite development and test applications and products sold for telemetry ground stations, principally serving the satellite market.

SBS measures its segments' results of operations based on income before income taxes and minority interest and prior to allocation of corporate overhead expenses, substantially all amortization of goodwill and intangibles, corporate interest income and expense and acquired in-process research and development charges associated with purchase business combinations. The accounting policies used to measure segment results of operations are the same as those described in note 1. Intersegment sales are accounted for at prevailing market prices and were not significant in the fiscal year ended June 30, 1998.

| | Communications Group | Computer Group | Aerospace Group | Corporate and Unallocated (1) | Other (2) | Total |
|---|---|---|---|---|---|---|
| 2000 | | | | | | |
| Gross sales | $ 44,259,470 | 58,430,670 | 26,574,430 | — | — | 129,264,570 |
| Intersegment sales | (334,417) | (345,620) | (395,760) | — | — | (1,075,797) |
| Sales to external customers | 43,925,053 | 58,085,050 | 26,178,670 | — | — | 128,188,773 |
| 1999 | | | | | | |
| Gross sales | 19,583,433 | 54,922,364 | 32,002,628 | — | — | 106,508,425 |
| Intersegment sales | (238,255) | (155,541) | (115,396) | — | — | (509,192) |
| Sales to external customers | 19,345,178 | 54,766,823 | 31,887,232 | — | — | 105,999,233 |
| 1998 | | | | | | |
| Sales to external customers | 4,813,155 | 40,263,837 | 29,136,909 | — | — | 74,213,901 |
| Interest income | | | | | | |
| 2000 | 13,761 | 15,488 | — | 419,901 | — | 449,150 |
| 1999 | 1,026 | 14,173 | 980 | 282,193 | — | 298,372 |
| 1998 | 9,827 | 1,171 | 3,596 | 1,106,277 | — | 1,120,871 |
| Interest expense | | | | | | |
| 2000 | 15,222 | 50,359 | — | 385,381 | — | 450,962 |
| 1999 | 6,367 | 88,375 | — | 192,834 | — | 287,576 |
| 1998 | — | 1,672 | — | 186,004 | — | 187,676 |
| Depreciation and amortization | | | | | | |
| 2000 | 452,388 | 632,138 | 653,531 | 5,252,606 | — | 6,990,663 |
| 1999 | 197,384 | 639,113 | 607,522 | 4,194,289 | — | 5,638,308 |
| 1998 | 5,287 | 374,913 | 454,743 | 2,063,353 | — | 2,898,296 |
| Segment profit (Income before taxes and minority interest) | | | | | | |
| 2000 | 10,207,381 | 11,919,386 | 6,892,785 | (9,428,873) | (4,000,000) | 15,590,679 |
| 1999 | 3,898,068 | 12,823,811 | 10,756,753 | (7,597,025) | (527,514) | 19,354,093 |
| 1998 | 794,561 | 10,477,885 | 10,973,110 | (5,704,368) | — | 16,541,188 |
| Total assets | | | | | | |
| 2000 | 31,920,455 | 26,843,328 | 9,204,738 | 65,191,736 | — | 133,160,257 |
| 1999 | 11,202,749 | 22,914,294 | 11,173,670 | 46,717,142 | — | 92,007,855 |
| 1998 | 3,472,181 | 12,837,390 | 10,450,496 | 47,555,120 | — | 74,315,187 |

(1) The corporate and unallocated column includes amounts for corporate items. With regard to results of operations, corporate and unallocated includes corporate overhead, substantially all interest expense, interest income and amortization expense associated with goodwill and intangibles not considered in assessing segment profit. Corporate assets primarily include cash and cash equivalents, deferred income tax assets and intangible assets.

(2) Fiscal 2000 and 1999 include charges for acquired in-process research and development associated with purchase business combinations that management does not consider in assessing segment profit.

## (14) Geographic Areas and Major Customers

| | | United States Domestic | United States Exports | Germany | Total |
|---|---|---|---|---|---|
| Sales to External | 2000 | $ 91,437,991 | 25,365,444 | 11,385,338 | 128,188,773 |
| Customers (1) | 1999 | 79,150,230 | 16,878,726 | 9,970,277 | 105,999,233 |
| | 1998 | 62,634,057 | 11,579,844 | — | 74,213,901 |
| Long-lived assets, net | 2000 | 6,995,148 | — | 325,074 | 7,320,222 |
| | 1999 | 7,002,752 | — | 318,965 | 7,321,717 |
| | 1998 | 4,460,276 | — | — | 4,460,276 |

(1) Sales are classified according to the location of the shipment.

During the years ended June 30, 2000, 1999 and 1998, United States export sales as a percentage of total United States sales were 21.7%, 17.6% and 15.6%, respectively. United States export sales were made primarily in the following foreign markets:

| | 2000 Sales (000's) | % | 1999 Sales (000's) | % | 1998 Sales (000's) | % |
|---|---|---|---|---|---|---|
| United Kingdom | $ 1,929 | 7.6 | $ 1,680 | 10.0 | $ 1,400 | 12.1 |
| Germany | 1,433 | 5.6 | 1,525 | 9.0 | 1,100 | 9.5 |
| Korea | 934 | 3.7 | 420 | 2.5 | 700 | 6.0 |
| France | 1,495 | 5.9 | 1,415 | 8.4 | 1,150 | 9.9 |
| Japan | 4,271 | 16.9 | 4,050 | 24.0 | 2,600 | 22.5 |
| Canada | 2,892 | 11.4 | 2,215 | 13.1 | 1,700 | 14.7 |
| Sweden | 9,097 | 35.9 | 2,100 | 12.4 | 480 | 4.1 |
| Israel | 691 | 2.7 | 1,035 | 6.1 | 220 | 1.9 |
| All others | 2,623 | 10.3 | 2,439 | 14.5 | 2,230 | 19.3 |
| | $ 25,365 | 100.0 | $16,879 | 100.0 | $ 11,580 | 100.0 |

In fiscal 2000, 1999 and 1998, no one customer, or group of entities known to be under common control, exceeded 10% of SBS' sales.

## (15) Contingencies

SBS is subject to various claims which arise in the ordinary course of its business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position, results of operations or liquidity of SBS.

## (16) Subsequent Event

On August 18, 2000, SBS declared a two-for-one stock split for stockholders of record on September 5, 2000, payable on September 20, 2000. All references in this annual report to net income per common share, net income per common share – assuming dilution, common stock and stockholders' equity have been restated as if the stock split occurred as of the earliest period presented.

SBS™
Technologies, Inc.

## Board of Directors

Christopher J. Amenson
Chairman of the Board
Chief Executive Officer

Scott A. Alexander
Executive Vice President
& Secretary

Warren W. Andrews
Market & Technology Analyst for
Embedded Computer Industry

William J. Becker
Retired Brigadier General
U.S. Air Force

Lawrence A. Bennigson, PhD
Independent Management Consultant

James E. Dixon, Jr.
Vice President
Finance & Administration
Chief Financial Officer & Treasurer

Louis C. Golm
Former President
AirTouch International

Alan F. White
Senior Associate Dean
Sloan School of Management
Massachusetts Institute
of Technology

## Executive Officers

Christopher J. Amenson
Chairman of the Board
Chief Executive Officer

Scott A. Alexander
Executive Vice President
& Secretary

James E. Dixon, Jr.
Vice President, Finance & Administration
Chief Financial Officer & Treasurer

## Office Locations and Corporate Information

### Corporate Headquarters

SBS Technologies, Inc.
2400 Louisiana Blvd. NE #5-600
Albuquerque, New Mexico 87110
(505) 875-0600 www.sbs.com

### Operating Locations

5791 Van Allen Way
Carlsbad, California 92008

8371-C Central Avenue
Newark, California 94560

35 Hampden Road
Mansfield, Massachusetts 02048

1284 Corporate Center Drive
St. Paul, Minnesota 55121

2400 Louisiana Blvd. NE #5-600
Albuquerque, New Mexico 87110

6301 Chapel Hill Road
Raleigh, North Carolina 27607

Memminger Str. 14
D-86159 Augsburg, Germany

## Corporate Services

### Legal Counsel

Schuler, Messersmith, Daly & Landsdowne
4300 San Mateo NE, Suite B-380
Albuquerque, New Mexico 87110

Eastham, Johnson, Monnheimer
& Jontz, P.C.
500 Marquette NW, Suite 1200
Albuquerque, New Mexico 87102

### Independent Auditors

KPMG LLP
6565 Americas Parkway NE, Suite 700
Post Office Box 3939
Albuquerque, New Mexico 87190

### Transfer Agent

Wells Fargo Bank Minnesota, N.A.
Shareowner Services
161 North Concord Exchange
Post Office Box 64854
St. Paul, Minnesota 55164
(800) 468-9716

## Form 10-K

The Company's Annual Report to the Securities and Exchange Commission on Form 10-K (excluding exhibits) will be furnished without charge to stockholders upon written request to:

Jennifer D. Wade
Manager, Investor Relations
SBS Technologies, Inc.
2400 Louisiana Blvd. NE #5-600
Albuquerque, New Mexico 87110

## Annual Meeting

Thursday, November 9, 2000
8:30 a.m. MST
Sheraton Uptown Albuquerque
2600 Louisiana Blvd. NE
Albuquerque, New Mexico 87110

## Trading and Dividend Information

SBS Technologies' Common Stock trades on The Nasdaq Stock Market® under the symbol SBSE.

## Common Stock Market Price

| | HIGH | LOW |
|---|---|---|
| | (Post Split) | |
| Fiscal 1999 | | |
| First Quarter | $15.625 | $10.6875 |
| Second Quarter | $11.75 | $4.6875 |
| Third Quarter | $12.1875 | $8.25 |
| Fourth Quarter | $10.5315 | $8.875 |
| Fiscal 2000 | | |
| First Quarter | $13.6875 | $9.75 |
| Second Quarter | $20.00 | $10.875 |
| Third Quarter | $27.875 | $9.625 |
| Fourth Quarter | $20.50 | $12.094 |

The closing price on September 1, 2000 was $25.0625

As of September 1, 2000 there were approximately 250 share owner accounts of record, as defined by Rule 12g5-1 of the Exchange Act.

SBS has not paid any cash dividends on its common stock. Management's current policy is to retain earnings, if any, for use in the Company's operations and for expansion of the Company's business.

SBS Technologies, Inc.

2400 Louisiana Boulevard NE, #5–600, Albuquerque, New Mexico 87110 505-875-0600 www.sbs.com